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ANXIETY ABOUT STERLING AND THE ECONOMIC STRENGTH OF BRITAIN

Hardly a month passes without new and revived rumours cropping up here and elsewhere about the possibility of a devaluation of sterling in terms of US\$. These periodic fits of nervousness in the international financial markets prove harmful to the interests of legitimate traders and manufacturers and upset particularly the small investors; but in view of the instability of post-war economic conditions and the slow return to peaceful life and production the world over, complicated further by the unabated cold war between the U.S. and the U.S.S.R., it is as yet too early to expect a change for the better.

As sterling remains the world's major trading currency and all civilised states and their people have a great interest and stake in the maintenance of the sterling-dollar parity, any signs for a possible suspension of this parity is creating everywhere feelings of uneasiness and anxiety.

Hongkong's financial and commercial markets were last week once again, following the international trend, much concerned about repercussions of sterling devaluation rumours. On the whole, not much credence is lent to alarmist reports, emanating probably from a powerful international circle of speculators who are banking on devaluation and thus again selling sterling short; the sober elements remain in control of the markets here. The share market, usually a good barometer for the feelings of Hongkong's haute finance, continued last week, as for so many previous weeks, in the doldrums. There was some speculative buying of TT New York but these manoeuvres were countered by almost an equal number of sterling a la hausse speculators and investors.

The movements in international markets are followed here with much concern and cabled reports from the world capitals are studied with a view of discerning the tendency at the moment. In the end, no conclusions can be drawn and we seem to be not a step nearer to the answer whether sterling should be or must be devalued.

The Actual Position of Britain

It may, however, prove most useful to consider the actual economic position of the United Kingdom as it appears now that the European Recovery Program was signed, on April 3, by the U.S. President, after the publication of the U.K. White Paper on the national income in 1947, and in the light of the United Nations survey of European economic prospects.

Furthermore, even the most sceptical financier cannot ignore the repeated statements made by the British Government with regard to their policy of maintaining the sterling parity; the many authoritative announcements made, in various forms, by U.S. Administration spokesmen, in particular the several statements by the Secretary of the U.S. Treasury which disfavour a change of the sterling/dollar cross rate; and also the known attitude of the International Monetary Fund and World Bank concerning the stability of United Nations approved exchange rates.

The British economic outlook is far more optimistic than many gloomy commentators, both in London and New York, would have us believe. The introduction of the British Budget proposals by Sir Stafford Cripps, on April 6, and the preceding review of economic conditions delivered by the Chancellor of the Exchequer must be studied in order to obtain a proper view of actual conditions.

The British Budget and Expansion of Trade

The co-ordination of Britain's external and internal economy with the control of Government expenditure and revenue, has marked this year an important change in the country's planning machinery. The new task of the Chancellor of the Exchequer is no longer merely to balance the Budget, but the much wider one of matching Britain's resources against her needs. The 1948-49 Budget is thus complementary to, and in some sense part of, the national economic plan; and the econo-

mic problem, the solution of which the Budget is designed to help, is to achieve a balance of external payments and a balance between the nation's internal resources and the demands placed on them.

It had been made clear in the United Kingdom Economic Survey that "Marshall Aid" was indispensable for maintaining full production and employment in Britain. Now Marshall Aid will come, the prospects must be considered brighter. But Sir Stafford Cripps made it clear that American aid will not build up depleted gold and dollar reserves, and that its effectiveness really resides in supplying a stimulus to the national productive effort.

But if there is no illusion about how much has to be done to increase production, it is encouraging to remember how much has been done already in this direction.

Thus, the United Nations economic report on Europe shows that the United Kingdom, with the sole exception of Finland, is the only country in Europe, whose exports are higher and whose imports are lower than in 1938. Moreover, the United Kingdom is exempt from the report's general criticism that high export prices, largely arising from inflation, are restricting trade with the United States or contributing to widen the balance-of-payments gap.

Indeed, the United Nations report refers to British effort and achievement as "unique."

Balance of Payments Problem

In the international field Britain's greatest problem is to reach a better equilibrium between receipts and payments. The whole economic situation in 1948 will be dominated by the task of earning enough from exports to pay for indispensable imports, more especially because, owing to certain (no doubt, temporary) influences, no net earnings from invisible exports are to be expected. That is why Sir Stafford, after referring to the need for legislating for a genuine surplus of all Government revenue over all Government expenditure, gave pride of place to "adjusting taxation so as to encourage production by providing a better incentive to producers."

CHINA'S FOREIGN EXCHANGE RATES

Introduction of an Export-Import Link System

The Chinese Government has again revised its foreign exchange policy, under nation-wide pressure and protests from traders and manufacturers against the economy-stifling trade and exchange control system, and has introduced, with effect from May 31, a kind of export-import link system of foreign exchange.

The system is to operate as follows:-

(1) *Sales of foreign exchange to Chinese Govt. appointed (licensed) banks:*

All exporters are required by regulation to sell their export bills to the appointed banks at the "open market rate," and, in addition to the acquisition of CN\$ credits, exporters obtain from the banks, as from May 31, so-called "Exchange Surrender Certificates."

At the same time, the object of the Budget proposals for 1948-49 is to counter inflation. It is true that the active note circulation contracted during 1947-48 by £154 million, but that trend, though of a distinctly deflationary nature, is not considered conclusive. Nor can the fact that the year 1947-48 ended with a large Budget surplus, of over £650 million, be taken as meaning that inflationary pressure has been diminished by that amount.

Sound Economic Background

The White Paper issued by Britain's Government on April 5, shows that in 1947 (compared with 1946) wages rose by 14 per cent., profits from business and interest from investments increased by £300 million, and more was spent out of the national income.

The economic purpose of the 1948-49 Budget proposals is, therefore, to stimulate production, more especially for export in order to rectify the balance of international payments, and its fiscal purpose is to impose taxation so distributed as to stem inflationary pressures without discouraging the national effort to work harder for increased production.

The public revenue for 1948-49 is estimated at £3,765,300,000 and public expenditure at £2,975,679,000 leaving a surplus of £789,621,000. In Government expenditure there is to be a large saving amounting in all to no less than £400 million — a saving of nearly 13 per cent. compared with the 1947-48 estimates. This is to be effected without cutting down the social services, for the Government are "proud of their record in social services" and "are anxious to improve upon it." Now is the total allocation for food subsidies (about £400 million) to be reduced.

Taking into account capital expenditure, the Chancellor of the Exchequer, Sir Stafford Cripps, estimates that of the Budget surplus of £789,621,000, an amount of not less than £319,000,000 will remain as an "overall surplus"—one which can be used "to counter inflationary tendencies."

These certificates are issued in the name of the exporter for the amount of foreign exchange sold to the banks and they can be endorsed and freely transacted within 7 days after issuance. The value of the "Exchange Surrender Certificates" will depend on the demand by licensed importers for exchange to pay for officially permitted imports in to China.

(2) *Purchases of foreign exchange from appointed banks:*—

All licensed importers who have secured an import quota allocation from China's Export-Import Board are entitled to buy exchange from the appointed banks at the "open market rate" but, as from May 31, they have to purchase from exporters their "Exchange Surrender Certificates" at the premium of the day, and to deposit these Certificates with the banks.

(Exception: Certain essential imports which are, by & large, imported by the Govt. directly or through its corporations, like rice, wheat flour, raw cotton, fertilizer, are exempt from the requirement to produce, prior to the sale of foreign exchange, an "Exchange Surrender Certificate." Thus, the import of most essential commodities will be effected at the "open market rate" which means heavily subsidised at the expense of Chinese exports).

Other exchange sales to appointed banks, like overseas Chinese family remittances, foreign services in China, and authorised exchange purchases from banks, like travel and student requirements, are treated in the same way as exporters' and importers' bills. Chinese recipients of remittances from abroad may sell their drafts to appointed banks from whom they will receive CN\$ at the "open market rate" plus an "Exchange Surrender Certificate" which is legally marketable at a premium to be paid by importers and other persons who are permitted to buy foreign exchange for foreign services.

Four Foreign Exchange Rates in China

Four different rates of foreign exchange are quoted now in China:—

(1) The official rate, established by Central Bank of China, on February 17, 1947, of CN\$12.000 per US\$1 (sterling cross rate US\$4). This rate has never been changed since its establishment remains still in force and is completely fictitious.

(2) The "open exchange market rate" established on August 18, 1947, by the Foreign Exchange Equalisation Fund Committee, controlled by Central Bank of China. This fluctuating so-called open rate was established at the same time with the "Revised Temporary Regulations with regard to Exchange Transactions" (vide our issue of last August 27, pp. 312/5) which still remain in force.

The first "open market rate" was CN\$39,000 per US\$1 and has subsequently often been advanced until, on

May 17, the last upward revision was made at CN\$474,000 (being the cover rate; banks' buying at 468,000, selling at 480,000, a spread of 2½%). The unofficial sterling cross rate at present being US\$3.

(3) "Exchange Surrender Certificates" rate, or premium over the "open market rate." With the introduction of the export-import link system operating with Exchange Surrender Certificates a third legal exchange rate has been created.

Importers are bidding on the market for Certificates as held by exporters and other persons who have sold exchange to the appointed banks. A premium over the "open market rate"—at present about 75% or CN\$355,000—is being paid but the premium is bound to rise in sympathy with the black market rate which it will, in respect of distance, follow from day to day.

(4) Black market rates. These are the realistic exchange rates which are quoted all over the country and which are, together with gold and staple commodity prices, the generally accepted measuring standards for the progress of monetary inflation in China.

Since the establishment of the "open market rate" on August 18 last year, that is within ten months, the rates of foreign exchange on the "open market" have appreciated by the end of last week by over 1,100%, and on the black market by over 3,300%, thus testifying to the galloping and uncontrolled inflation in China.

Market Value of "Exchange Surrender Certificates"

Since the Certificates can only be used for approved imports and authorised foreign services the demand for these papers will be less than for free foreign funds. The black market rate will therefore remain considerably higher than the new combined rate of the "open market" plus premium of Certificates.

Eg. last week Certificates sold at around CN\$355,000 to 365,000 per US\$1 to which had to be added the "open rate" of CN\$474,000, making a total exchange value per US\$1 of some CN\$ 834,000. The black market rate stood, however, at about CN\$1,300,000.

Accordingly, exporters' official proceeds of their sales abroad or official proceeds of remitters ex family remittances were some 55% lower than proceeds obtained through sales in the black market.

The difference between the "open market" and the black market rate is now over 180%; provided that this gap could be narrowed, by a drastic advance in the "open market rate" and the simultaneous stability of the black exchange rate, the premium to be paid for "Exchange Surrender Certificates" might decline in proportion to the advance in the "open market" rate.

The daily premium of the Certificates will be determined by the technical position of the market, i.e. by & large the demand by importers and the supply by exporters of Certificates. The Central Bank of China will inter-

PROBLEMS OF GOLD TRADING IN MACAO AND HONGKONG

Trading in gold has improved during the last two weeks although there is as yet no reason to anticipate a better buying mood in China. Bullion is, however, moving again in larger quantities but profits of dealers and transporters remain depressed.

The more sanguine dealers are no longer anxious to liquidate stocks and have placed regular orders for new bullion with overseas suppliers.

At current price levels, as outlined elsewhere in this issue, there is still a difference of some 10% between the c.i.f. Macao price and the Hong Kong unofficial market quotation but since Macao import duty (\$3 in transit) and "squeeze" (at present some \$12 as levied by the local distributors of Macao licences) amount to around \$15, or at the current unofficial exchange rate to US\$ 2.65/2.70, the actual landed cost price per ounce of gold (on the basis of US\$ 44.50 c.i.f. Macao) is increased to US\$ 47.20. The difference between this price and the average cross rate in Hongkong of US\$.49 should still allow the local dealers to make a satisfactory profit in spite of the high cost of illicit transportation.

vene in the market in order to curb excessively high prices of US\$, £ and other currencies by selling, when demand for the Certificates is strongly in excess of supply, certain amounts of its exchange resources.

The Chinese Govt. describes the system of "Exchange Surrender Certificates" as a supplementary exchange measure, i.e. additional to the two other existing official rates.

The immediate effect of the new system will be an increase in exports from China via the official routes (reduction in export smuggling) as exporters are bound to obtain for the Certificates much higher CNS proceeds than before May 31. Overseas Chinese family remittances may also in larger amounts than was recently the case be sold to Chinese official or appointed banks.

On the other hand, importers will find increasing difficulty to buy at not too prohibitive rates "Exchange Surrender Certificates." Import requirements being much heavier than the amount of Chinese exports the only solution to the foreign trade dilemma of the country remains the curtailment of its imports. The introduction of the present export-import link system will operate in this direction.

The Chinese Govt. will remain in business and is expected to increase its activities in state trading.

The Chinese Govt. will also expand its export sales through various state corporations (such as marketing of products of Govt. industries, concentration of exportable produce) and thus be in a position to supply the private importers, if it so desires, with Certificates at the rate of the day.

Scarcity of Supply

There has been almost a dearth of gold at foreign sources of supply. Since the last stock of the Holland returned Nazi-loot of gold was disposed of by Netherlands banks, some two months ago, new and equally cheap purchases could not be made; the f.o.b. European or American port price advanced and while overseas gold exporters contracted earlier this year at around US\$ 40, the Far Eastern and other customer is now compelled to accept US\$ 44, more or less, this price being almost the post-war peak in free gold markets abroad.

Local European agents or representatives of American, British, Swiss, French etc. bullion exporters have, however, been able to supply, at increasing costs to be sure, any demand coming from Macao and Hongkong native banks and dealers in the first place. These agents

"dig up with tireless application and fervent zeal, the precious ore, for, hidden in the deepest station, are found" at US\$ 44 or more what any Chinese inflation-crazed heart could desire; provided that funds in New York are available or can be purchased.

The Risks of Gold Transports

Many entrepreneurs in the transport line have met with disaster, especially in Hongkong where an alert preventive service (Revenue officers) has scored many times against these intrepid and ingenious people. Many shipping vessels and other junks have been caught in the act of gold smuggling, passengers on ship and aircraft and such who posed as travellers, transporting gold on the person or supervising the movements of gold in transit through the Colony, were apprehended, the precious cargo was confiscated, and the offenders were fined in the local Courts.

But all successes at interception and seizures made by Hongkong Revenue officers have only led to ever more circumspect methods of illicit transportation but there has also resulted a heavy diversion of gold traffic from Macao directly to China. As gold trading is legally permissible in the Portuguese Colony the export of gold from Macao to China should only in few cases be necessary to be directed via Hongkong.

A local smuggling case which was last week discovered, through the services of an informant, involving gold valued at about HK\$ 200,000 was described, in the local Police Court, as particularly "despicable". Some women from Macao, no doubt domiciled in picturesque Rua da Felicidade, carried gold into Hongkong in a most "undignified" way; some Macao doctors (curandeiros, we hope) skillfully inserted and deposited in the female smugglers' private recesses gold bars which eventually could only

be located with the help of X-ray and removed by expert physicians.

Less piquant but very dramatic, with a touch of the light opera, was the still unsolved gold robbery of Bangkok which implicated quite a few doughty army officers; the resignation of top generals was, coming as it did a few days after the robbery was successfully staged, possibly connected with this case. Much of the loot has still not been recovered and the damage which the insurance company is likely to suffer will be around US\$ 1 $\frac{1}{4}$ million.

Bangkok is still humming with stories about the "biggest robbery in Siam's history"; Hollywood scenario writers should find there a singular opportunity for a best-seller plot. When calling on Bangkok they could conveniently round out the story by looking into the very interesting happenings in Macao.

Yes, as Goethe already wrote: "Am Gold hangt, nach Gold drängt doch alles".

Macao Censorship

Besides the regular press censorship which is exercised in Macao not only for political reasons but also for the purpose of keeping useful though not necessarily all-round agreeable information from the public, an indirect method is being practised which cuts the evil at its roots.

While this Review was, at one or two occasions, confiscated by the Macao censor in connection with gold market and foreign exchange factual reports—a fate which we have shared repeatedly with other Hongkong, not to mention, Canton publications—the censorship control in the Portuguese Colony did not prove very airtight and many residents in Macao secured a copy to read about what they all know and talk about.

It appears that the operation of censorship is even unpopular among the officials in Macao who do not hold that the circulation of information can be suppressed by such a proper war-time measure.

Therefore, some more practical censor found but another approach: as this Review obtained the paid services of a correspondent in Macao it remained for the interested parties in our neighbouring Portuguese Colony to ferret out his name and doings. Eventually, a Portuguese gentleman whom we know well was honoured by the visit of a Macao sleuth and during the long conversation our Portuguese friend was so effectively persuaded to sever any contact he might possibly have had with this Review that since that time, but for the bare facts of the plainclothesman's efforts, we never heard from our friend in Macao.

Much correspondence was received by us in connection with gold and other business in Macao; one writer, claiming to be in the possession of "the most tremendously important information", announced his arrival in Hongkong for the purpose of confiding this information to us; eventually, he did not put in an appearance as was, of

course, expected as he was known to be very close to the interested parties. Other Macao correspondents urged us to publish their signed or anonymous letters which however we did not like in order not to offend various Macao authorities.

Hongkong Worries

In their misunderstanding, no doubt, of the operation of the gold trade and market transactions the local Passport Office—of all the authorities!—has issued verbal instructions to several European gold importers (agents of overseas bullion exporters) to abstain from any gold business in the Colony; these merchants were also denied any further extension of their stay in Hongkong.

When these reports became known in the market there was much doubt at first about their veracity and later, when they were confirmed, only few ventured to offer explanations.

It is obvious that the flourishing gold trade here has at times, when heavy gold imports were effected which resulted in excessive demand for TT New York and a subsequent decline in the unofficial exchange value of HK\$, caused some anxiety about its future scope. But failing to obtain the cooperation of Macao, where gold imports have been almost indiscriminately licensed for importation and in transit, there was very little to be done in Hongkong to curtail this business.

To request a few local agents of overseas gold exporters to leave the Colony, and, until the expiry of their visa, to refrain from doing any business in the gold market, is no solution whatsoever and only reveals official embarrassment about the continued large-scale gold trading in and via Macao.

Some Chinese dealers believe that, in order to take some official action, a few European scapegoats have to be selected; since the free and uncontrolled immigration of people of Chinese race into this British Colony enables Chinese merchants to engage in any commercial and financial business, the Chinese gold traders can neither be told to stop their activity—on the contrary, all the Chinese gold dealers in the native market were recently issued licences under the Banking Ordinance of 1948—not are they liable to be deported.

Several European gold importers are otherwise in merchant business and contribute, in a more or less humble way, to the prosperity of this Colony.

Gold imports into Macao will never be reduced as a consequence of the possible departure of one or more local European merchants. The sellers are sitting in their New York, Antwerp, London, Paris etc. offices while the buyers are exclusively Chinese native banks and firms which act, in many cases, on behalf of other Chinese interests in Canton, Shanghai etc.

EXCHANGE & FINANCIAL MARKETS

BRITAIN'S PRESENT ECONOMIC POSITION AND OUTLOOK FOR THE FUTURE

The following is an extract from the speech delivered by Lord McGowen, Chairman of Imperial Chemical Industries Ltd. at the 21st annual meeting of the Company:

"While I remain an optimist about this country's future I must emphasize the importance of facing squarely the grave difficulties which now confront us. In North America, we see a high level of employment, a large unsatisfied demand from the resident population, high production, and indeed high productivity per man, and if dollars were freely available there would be a clamorous demand from overseas for North American products. In Europe, however, and particularly those areas which bore the main burden of the war, the pace of recovery is halting and slow. There are still great arrears to be overtaken — arrears of repair, rehabilitation, re-stocking — and the pre-war rates of production and productivity are in general yet to be attained.

"Our own Government has shed the easy optimism of its early days. Now I am thankful to say that greater emphasis is being placed upon hard facts, with much wider publicity. In the Economic Survey for 1948 the Government recognize that Britain — and the same is true of Western Europe — cannot by herself alone recover the prosperity of pre-war days. Our international account with North America still shows a heavy debit balance. Canada and the United States have the food and raw and semi-manufactured materials we desperately need. Yet, in general, these countries do not need our products, or at least they want only specialised classes of our exports, for which our own capacity is inadequate to meet demand. Canada, however, like Britain, is embarrassed by a shortage of dollars, and the steps she is taking to remedy her position should work to the advantage of British exports, subject to our ability to meet her requirements in style, pattern, quality and price.

"Further substantial external aid was essential if we were to maintain our industries and no more than our present austere way of living. That aid has now come, in the enactment by the United States Congress of the European Recovery Programme.

"It is well to remind ourselves, however, that this aid has been given for one year only. A new Congress is to be elected in the United States towards the close of this year. Continuation of the Programme by subsequent annual enactments over a period of four years, as originally contemplated, and the appropriation of moneys thereunder will be subject to all the political and economic risks of the world in general and to the uncertainty of the United States har-

vests and prosperity in particular. Our hope and expectation is that the Programme will run its full period and so permit the 16 participating European nations, with its aid and by their own co-operative efforts, to raise the production and productivity of their economies to a level at which they will not need further external aid. Even with the aid thus given, this will not prove, either to us or the other countries concerned, any easy task

"In pre-war days, our British economy, resting upon the scope and vitality of our international trade, was uncertainly balanced because it depended so critically on the activities and the prosperity of the rest of the world. To-day, the position is even more precarious. It will be many years before Britain can start to rebuild her overseas investment assets, the income from which in pre-war days paid for a substantial proportion of our imports of food and materials. World demand and supply in respect of food has altered to our prejudice, as is shown by the slow worsening of the terms of our international trade. As was the case in the first world war, the second has given a great impetus to the development of industrialization in other countries.

"The struggle to sell our goods overseas will become more and not less intense.

"The paradox of our position is that while our task abroad will be more arduous, at home we have a continuous pressure for higher incomes, more leisure, more amenities and better conditions.

"Our land and our manpower are limited. Indeed our manpower is shrinking as hours contract, as we rightly extend the benefits of education to our young people, and as our population ages. For nearly a decade our standard of living will have rested, partly on the benefits of Lend-Lease and the United States and Canadian credits, partly on the disinvestment of capital assets, and partly on the generosity of the European Recovery Programme. The hard realities of our position have been masked from us. Unless we reason from the facts and mend our ways, we shall learn through bitter experience. This is the battle of output—quality output. We can only cancel the losses we sustained by war by more and more productive power per man-year. It is the task of management to devise ways and means by which fewer of us can do the work and produce the yield we are now achieving, so that we may free more workers of every rank to secure still more production. The rearrangement of our labour force, new products and new processes through research, the drawing out of

the additional latent power that is in most of us, and additions to our industrial plant and machinery—these are the weapons we must use if we are to overtake the arrears left by the war and to provide new exports with which to buy the imports which were paid for in pre-war days by the income from overseas investments which we have had to sell."

HONGKONG CLEARING HOUSE

Following are the Hongkong Clearing House figures for the first five months of 1948 compared with the same period of 1947:

	1948	1947
January ..	\$ 690,869,863	442,070,008
February ..	624,267,531	460,807,509
March ..	780,180,420	464,164,534
April ..	753,367,765	541,751,540
May ..	677,060,291	642,913,034
Total ..	\$ 3,525,745,870	2,551,706,625

During last month the clearing total dropped by \$76.3 million (almost 10%) against the preceding month of April; against the month of March, with the highest clearing figure record so far for 1948, the reduction amounted to 13½% (\$103.1 million).

The relative low clearing total for May reveals a reduction in commercial and financial activity in the Colony; while, however, trade did not drop much against April (which month registered the highest ever figures for Hongkong's imports and exports), as far as can be ascertained at the present time when the trade returns of the Colony are about to be compiled, speculative and investment transactions were somewhat reduced against April and particularly against March, which was a month of very large gold sales and other financial transactions including land and houses.

The total of Hongkong Clearing House figures for the first five months of 1948 amounts to an increase of \$974 million or over 38% compared to the same period of 1947. However, the comparison between the month of May of this year and of last year shows only an increase in 1948 of \$34 million or 5½% over May 1947 (the peak figure for 1947, to be sure).

For the whole year of 1947 clearings aggregated \$6,595 million (a monthly average for Jan./May 1948 amounts to \$705 m. compared with the average for the first five months of 1947 at \$501 m.).

The total currency issue of the Colony at the beginning of 1948 almost exactly equalled the Clearing House figure for May of \$677 m. The currency issue of Hongkong stood at \$677 m., viz. \$616 m. issued by Hong Kong & Shanghai Banking Corp., \$53 m. issued by Chartered Bank, \$3 m. issued by Mercantile Bank, and approx. \$5 m. issued by Hongkong Government (\$1 and subsidiary notes). At the beginning of 1947 the total currency circulation of Hongkong amounted to \$480 million against a prewar (1938) currency issue of \$235 m.

UNITED STATES DOLLAR TURNOVER

In the local unofficial exchange market dealing in US dollars the turnover for the month of May (four trading weeks from May 3—29) aggregated the following amounts:—

TT New York US\$4,733,000; drafts payable in the U.S. US\$2,238,000; US bank notes US\$935,000; making a total of US\$7,906,000.

This trading of US credits and notes at the unofficial rates of exchange involved an amount of approximately Hongkong dollars 44 million.

Outside the unofficial exchange market (i.e. transactions at the Exchange Society and among native banks, exchange shops and financial brokers) there are at times large-scale transactions carried on by importers and exporters, arbitrageurs etc. These figures are not included in the weekly and monthly turnovers as they only refer to native market sales.

For the month of April (four trading weeks from April 5 to May 1) total turnover for unofficial US dollar business aggregated the following amounts:—

TT New York US\$4,123,000; demand drafts drawn on America US\$1,165,000; US bank notes US\$685,000; making a total of US\$5,973,000.

Highest and lowest unofficial exchange rates for US credits and notes for the period January to May 1948 were as follow:—

US notes: HK\$588—HK\$485

US drafts: HK\$598—HK\$490

TT N'York: HK\$608—HK\$500

The highest rates were recorded in March, the lowest rates in January.

The highest cross rate was established in January with US\$3.20, and the lowest cross rate in March with US\$2.62 per £.

AMERICAN DOLLAR TRANSACTIONS

Highest & lowest rates last week (per US\$ 100):—notes HK\$563—547; drafts HK\$566—552; TT HK\$571—555 (or US\$17.50 lowest and US\$18 highest price per HK\$100); unofficial cross rate US\$2.80—US\$2.88. Unofficial local cross rate was last week on the average 2½% lower than official London/New York rate.

Zuerich quoted sterling at US\$2.75/2.80, unofficial rate, and other large international exchange markets (with free or unofficial rates being regularly established) did not differ. Smaller amounts in London sterling accounts, French sterling accounts and some other European accounts quoted lower, as sterling holders (mostly travellers from the U.K. and other individuals) residing on the Continent were satisfied with a cross rate of US\$2.50/2.60. When such cheaply acquired amounts are collected by brokers and transferred, for instance to Hongkong, an arbitrage profit of some 7 to 10% can be made.

The local market (native banks and exchange shops) transacted last week:— US\$1,326,000 TT New York; US\$575,000 drafts; US\$284,000 notes.

Demand was weak on account of gold importers having not yet secured Macao Govt. import licences (3rd quarter). Merchant demand was steady.

Inward remittances, from overseas Chinese in the continental U.S. and Hawaii, kept coming in as it is only a few days now until the important Chinese festival (Dragon Boat) which is also a major settlement day for the business community.

The various rumour offensives against the stability of sterling and HK\$ were generally received with ridicule. The height of the ludicrous was the "report" about an impending linking of HK\$, after it had been de-linked from sterling, with China's "new silver dollar currency." Fertile but imbecile brains.....

GOLD TURNOVER

During the month of May (four trading weeks from May 3—29) total sales of gold on the local spot market aggregated 218,240 taels (one tael equalling 37.7994 grammes while one troy ounce equals 31.1035 grammes). Of this amount 83,150 taels were traded inside the Exchange market (Hongkong Chinese Gold & Silver Exchange Society) and 135,090 taels were traded outside the Exchange (in the native banks' curb market).

The total of gold sales on the forward market for May aggregated 3,160,810 taels, of which amount 1,173,440 taels were sold for future actual delivery and 1,987,370 taels were sold for position clearing or margin settlement only (the latter transaction being known also as paper bar or fictitious bar trading).

In the transactions of gold during May the following amounts were involved (approximate figures):—

Spot sales \$70 million; forward sales for delivery \$375 million; fictitious forward sales \$630 million.

In the four weeks' trading period of the month of April 1948 (April 5 to May 1) the following quantities of gold were recorded as having been sold in the local exchange market (unofficial trading):—

spot (inside Exchange Society) 67,995 taels, spot (outside) 128,520; total spot 196,515.

forward (actual delivery) 474,160 taels, forward (fictitious) 2,037,960; total forward 2,512,120.

In the preceding months of 1948 total spot sales of gold aggregated:— in March 213,000 taels, in February 146,000, in January 151,000 taels.

Forward sales fluctuate between 2 million to 4 million taels per month.

The highest & lowest unofficial rates for gold (per one tael) for the first five months of 1948 were as follow:—

HK\$372 in February, and HK\$295½ in January. The highest gold cross rate (per troy ounce) was recorded in February with US\$4¾, and the lowest gold cross rate in April with US\$4½.

GOLD TRANSACTIONS

Highest & lowest rates last week (per tael) \$338—\$324½; cross rate moved between US\$48¾ to 49¾ (per oz.) Shanghai gold cross rate US\$48¾ to 50.

C.i.f. Macao prices ranged from US\$ 44 to 45 per oz. The local market rate is some 10% higher than c.i.f. Macao price.

Sales in the local market last week (in taels):—spot 10,640 (inside Exchange), and 35,140 (outside Exchange); delivery 476,750, margin clearing 574,050.

Canton quoted HK\$330 to 339 per tael.

Shanghai quoted CN\$57 to 69 million per ounce.

Illicit imports, from Macao, aggregated last week 30,000 to 40,000 taels.

Exports from here to Shanghai averaged 5,000 taels per day. Direct exports from Macao to Canton about 3,000 taels per day.

Biggest buyers last week (forward delivery) were the native banks of Wing Tai, Hang Seng and Cheong On.

Transportation facilities to Central China have now been restored and no difficulties are expected in this respect; provided that the profit margin could be made more attractive the flow of gold trade should, once again, attain its previous high level.

Macao gold import licences for the 3rd quarter are to be issued shortly for a total of 250,000 oz. Applications have been handed in at the Macao Govt. department dealing with gold licences. Some anxiety is felt about the 4th quarter quota of 250,000 ozs. in view of a reported but unconfirmed agreement between the Macao Govt. and Chinese authorities concerning the curtailment of import licences. In the past large quantities of gold have been imported into Macao without licence and this practice may be expected to continue. It is not regulations which decide the amount of gold imports but the demand in China and the price at which the Chinese can absorb gold.

Gold Prices in Far Eastern centres:
Singapore, per tael, Malayan \$182 to 187—Bangkok, per baht weight of 15 grs., 530 ticals (open exchange market rates for TT Hongkong 3.70 ticals, TT London 60½, TT New York 20.80).—Swatow, per ounce, CN\$70 million (TT Hongkong 201,000).—Amoy, per ounce, CN\$72 million (TT Hongkong 212,000, US\$ drafts CN\$1.25 million).

Local Market Report

During the past week a new high of \$338 was reached which was the high-

est price quoted during the past six weeks, reports Mr. R. J. R. Elias. The Market displayed a very strong tendency from the beginning of the week until Friday, when the rate of 338 was reached. From this level profit-taking and short sales, in addition to selling by gold merchants, gradually caused the Market to decline. At the close on Saturday the undertone of the Market was on the easy side, the Market closing barely steady at 333.

Sentiment which was extremely bullish from Monday to Friday, underlined a decided change on Friday, and on Saturday, public sentiment appeared rather inclined to be bearish. Several factors were responsible for this change of sentiment. First of all, interest rates which had been only nominal at three or four cents increased

to approximately ten cents daily, in favour of bears. Secondly, the technical position of the Market is less in favour of the bulls than it has been in previous weeks. A great many shorts switched their positions and became long at the beginning of the week, while towards the end of the week at the higher levels many shorts were forced to cover their positions. It may be presumed that the over-bought position has considerably increased while the over-sold position has become much lighter.

It may be considered rather significant that in spite of the sterling devaluation rumours and baseless propaganda regarding the possible depreciation of the Hongkong dollar, the Market only gained three and a half dollars during the past week.

HONGKONG OFFICIAL EXCHANGE RATES**AGREED MERCHANT RATES****MAXIMUM SELLING**

STERLING. 1/2 15/16 delivery within
2 months with a cut of 1/32
for every further 3 months forward.

—Do—
(East & South Africa)

—Do—
(West Africa & West Indies)

RUPEES (India) 82 %

—Do— (Rangoon) 82 %

—Do— (Aden) 82 %

Straits \$ 52 7/8

U.S.\$ 24 15/16 delivery within
2 months with a cut of 1/16
for every further 3 months forward.

U.S.\$ NOTES

AUSTRALIA. 1/6 ½

NEW ZEALAND. 1/6 7/16

MINIMUM BUYING

1/3 1/32 T.T.
1/3 1/16 O/D.
1/3 3/32 30d/s.
1/3 1/8 60.90d/s.
1/3 5/32 120d/s.

1/3 1/8 O/D if under L/Credit.
1/3 3/16 O/L with L/Credit.
1/32nd up every 30d/s.

1/3 5/16 O/D if under L/Credit.
1/3 3/8 O/D with L/Credit.

1/32nd up every 30d/s.

83 ¾ T.T.
84 O/D.

84 ½ 7 & 30d/s.
84 ¼ 60d/s.

84 ¾ 80d/s.
All buying rates
3/16th higher than India.

84 ¾ O/D if under L/Credit.
84 ¼ O/D without L/Credit.

84 ¾ 30 & 60 d/s.
53 ½ T.T. & O/D.

53 ¾ 5/8 30 & 60 days

25 ¾ T.T.
25 5/16 O/D—30d/s.

25 3/8 60—90d/s.

25 ¾ (Banks to pay Insurance and Postage).

1/6 ½ T.T.
1/6 15/16 O/D.

1/6 13/16 T.T.
1/6 7/8 O/D.

HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

	Gold per Tael		CN\$ (per ten million)						US	(per 100)	Pound					
	May 31	High 331 ¾	Low 326 ½	High 49	Low 46	Forward 49	Spot 44 ½	S'hai 51	Canton 48	Notes 549	Draft 554	T.T. 560	I.C. \$ 11 ½	Guilder 44	Baht 25 ¾	Note 14
June																
1	330 ½	324 ½	54 ½	49	49 ½	47 ½	51 ½	46 ½	551	553	557	11 ¾	.44	25 ½	13.8	
2	331	327 ¼	52	49	48 ¾	47 ¼	48 ½	45 ½	556	556	560	11 ½	.44	25 ½	13.6	
3	334 ½	328 ½	49 ½	47 ½	45 ¾	44 ½	45 ¾	45 ½	556	561	564	11 ¾	.43 ½	25 ¾	13.3	
4	338	333	49 ¼	47 ½	47 ¾	46 ¼	43 ¾	45 ¾	556	560	565	12	.44	26	13.2	
5	334 ½	330 ¾	49	47 ½	46 ½	45 ½	43	46	555	560	564	11 ¾	.44 ¼	26	13.3	

HIGHEST AND LOWEST UNOFFICIAL QUOTATIONS IN HONGKONG

	(in Hongkong dollar per tael of gold; and per US\$100)				January 1948				Year 1947	
	April 1948		March 1948		February 1948					
	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
GOLD	344½	318	354	316¾	372	331	345	295½	405	254
(CROSS RATE IN US\$	..	..	49	46½	50¾	45½	54¾	51½	54	57½
U.S. NOTES	..	..	575	560	588	535	575	511	522	485
U.S. DRAFTS	..	..	587	563	598	542	594	511	516	490
TT NEW YORK	..	..	594	570	608	558	604	518	530	500
(CROSS RATE IN US\$ PER £	..	..	2.69	2.80	2.62	2.86	2.65	3.08	3.02	3.20
										2.70
										3.32

	May 1948	
	Highest	Lowest
GOLD	334	309½
(CROSS RATE IN US\$	49¾	47¾
U.S. NOTES	561	528
U.S. DRAFTS	569	530
TT NEW YORK	576	534
(CROSS RATE IN US\$	2.77	3)

SILVER TRANSACTIONS

The market was buoyed up by the arrival of silver from Taiwan, a new source of supply. In addition to small shipments of silver from Canton, Swatow and Macao, some 30,000 taels of silver from Taiwan increased the local dealers' stocks.

Sales during the week:—80,000 taels, no silver dollar coins, \$100,000 worth of 20 cents coins.

Prices ruled very firm, from \$4.07 to 4.10 per tael, and 2.08 to 2.10 per small coins. Since the New York price remains unchanged it is hardly possible for exporters to do any business (all silver exporters to the U.S. are required to surrender 25% of export bills at the official rate to the local Exchange Control).

BANK NOTE MARKETS

Pound notes were transacted at a larger than usual volume but at receding prices. The cross rate for notes was around US\$2.40/2.50, i.e. 30 to 40 US cents lower than the current New York free market price for Bank of England notes. New supply of pound notes, from arriving travellers, is quickly taken up. Many notes are shipped out from here (apart from being used by the travelling public) to markets where higher prices prevail.

Piastre notes had unusually heavy sales, a consequence of the much improved political sentiments about the long overdue pacification of Indochina and also of the arrival here of large imports from Saigon and Haiphong. Spot sales, inside the Exchange, totalled over 7 million piastras, and outside the Exchange 4.8 m.; in the forward market 8,240,000 piastres were transacted.

The formation of a Vietnam Government, the cooperation of former Emperor Bao Dai with the French, and the consolidation of Franco-Vietnam friendship augurs well for the future of Indochina.

Bank note rates at the close of last week (in HK\$ per 100):—Australian pounds 1.255; Indian rupee 117; Burmese rupee 108; Ceylonese rupee 107; Nica guilder 44½; Java guilder 43; Siamese baht or tical 26; Malayan dol-

lar 181; Sandakan and North Borneo dollars 175; Philippine peso 274.

Business in unofficial Canadian dollars, on account of some remittances from overseas Chinese in the British Dominion, is at times brisk. Rates are, in line with the free exchange market of New York for Can\$, some 10 to 12% lower than for US notes or TT New York.

CHINESE DOLLAR TRANSACTIONS

Highest & lowest note rates in the local market (per CN\$ 10 million):—HK\$54½—47½, spot, and \$49¼—44½.

Canton and Shanghai remittances moved up and down, in terms of HK\$, and also in relation to each other. In the beginning of the week the Shanghai dollar was quoted at a premium over Canton dollar but at the close of the week the situation had been fully reversed.

Local market sales last week (in billions of CN\$):—TT Shanghai 2,044; TT Canton 790; spot notes 119.6; and forward notes 59.2.

Canton quoted last week spot HK notes from 195,000 to 223,000. Shanghai quoted from 185,000 to 240,000, while US notes sold from CN\$1.1 to 1.4 million. The Shanghai cross rate for New York/Hongkong moved around HK\$ 5.50 per US\$1.

The local market is strongly pessimistic about the future of the Chinese dollar rate. Flight of capital continues. All news reaching here from China's principal markets is depressing and discouraging.

The rate of Taiwan dollar has further advanced and stands now at CN\$ 357 per Taiwan \$1. At the beginning of 1947 the rate between Chinese dollar and Taiwan dollar was 35. On Jan. 27, 1948 the rate was CN\$100 per Taiwan \$1.

Printing of new legal tender of Central Bank of China continues at increased speed and on newly imported, modern printing machines. American and British bank note manufacturing companies are well supplied with Chinese orders.

The boom in CN\$ printing has also been felt in Hongkong where the Chung Wah Press has been overwhelmed with orders from Nanking and has produced, in day and night shifts, many trillions of CN\$. It is reported that at present the Chung Wah Press is producing so-called Customs Gold Units of 50,000 and 250,000 denominations, i.e. CN\$1 m. and 5 million respectively.

CHINESE FINANCIAL REPORTS

Private cheques have been circulating in Swatow as a sort of subsidiary currency for the last six weeks but the Mayor of that city has now announced that the circulation of cheques as means of payment in the city and its hinterland is illegal. Offenders are threatened with severe punishment and even the death penalty is to be invoked against those people who issue private cheques as an "emergency currency."

The Swatow commercial community has become used to this convenient means of effecting payments and only few cases were discovered of merchants who issued cheques without funds in the bank. In many cases just a piece of paper with the chop of a reputable firm was issued which carried the promise of interest payment and was therefore called "Interest Piece Bill" (literal translation).

The progress of CN\$ inflation has necessitated this and similar other forms of individual currency issues. The private bills in Swatow increased in popularity as they were issued in large denominations, as it were.

The situation regarding the transportation of metal coins remains obscure in China. The war-time regulation of the Finance Ministry which stipulated that "No person is allowed to carry any metal coins unless permission from the Finance Ministry or identification from Central Bank of China is obtained" still holds good. The regulation was issued in order to preclude the possibility for the Japanese army of obtaining metal coins for the purpose of ammunition making.

Various Chinese authorities have, however, ignored that this regulation is still in force and have not taken steps to confiscate gold, silver, nickel, copper coins when carried by the people from one place to another.

North East dollar circulation has been suspended as from May 31, as the control of the Nanking authorities over Manchuria has passed, by and large, into the hands of the Communists. It was therefore purposeless to continue flooding the few cities remaining under Nanking's jurisdiction with this special North East currency.

From now on CN\$ notes will be used in that small area of Manchuria which has not yet been occupied by the so-called Liberation army of the Communists. All North East notes are to be exchanged into CN\$.

The total issue of CN\$ is bound to increase manifold on account of the conversion of N.E.\$ and the necessity

HONGKONG STOCK & SHARE MARKET

More interest was evinced in the market during the week, May 31st to June 4th. Transactions were well spread, and volume increased appreciably resulting in a contraction of offerings at closing prices.

Total sales reported amounted to 157,271 shares of an approximate value of \$5-1/8 millions, an increase of about \$2 millions compared with the preceding work.

Outstanding improvements were Hongkong Banks and Watsons. Both closed at new post war highs, the former at \$2165 and the latter at \$58 $\frac{1}{4}$ for the old and \$55 for the new shares. The combined price of Watsons is equivalent to \$93.75 cum rights ex dividend and bonus of \$6 paid for account of 1947.

Devaluation Reports

During the week rumours were in circulation of the imminence of devaluation of the Hongkong dollar. These were aided somewhat by reports of the worsening of Britain's economic position. However, none of the rumours had any effect on share prices. This was probably due to the prevalent feeling amongst share traders and investors that there is no foundation for the rumours aent the HK dollar, and secondly, as regards sterling, present prices and black market exchange rates have already fully discounted the percentage of possible devaluation which does NOT appear to be imminent.

Price Index

The Felix Ellis price index of twelve representative active local stocks showed a steady daily rise ending in a net gain of 1.04 compared to the close of the previous week. Day-by-day his averages were: May 31, 145.70; June 1, 146.19; June 2, 146.34; June 3, 146.57; June 4, 146.66. The high and low for 1947 were 155.82 and 123.88 respectively. The high for 1948 was 148.68 on February 12, and the low 143.56 on April 16.

by Central Bank of China to supply as from June 1st the population living in the Nanking-controlled part of the North Eastern provinces with sufficient legal tender.

Chinese Government banks in Hongkong quote, for official purposes and to official Chinese organisations, a so-called open market rate of Hongkong for CN\$ which is practically the same as that which is being quoted at the Hongkong Chinese Gold & Silver Exchange Society. Thus, a Chinese state bank in Hongkong quoted last week HK\$5 per CN\$1 million, at which rate purchases made in CN\$ from Chinese official organisations in the Colony were converted into HK\$; the official rate remained, however, at HK\$11.6.

THE FOREIGN TRADE OF CHINA FOR THE FIRST QUARTER OF 1948

The total foreign trade of China for the months of January through March 1948 amounted to a value of US\$ 115 $\frac{1}{2}$ million, or 63% less than during the same period of 1947 when imports and exports aggregated a value of US\$ 175.2 m.

China's recorded imports in the first quarter of 1948 amounted to a value of US\$ 65.7 m., exports to \$45.8 m., resulting in an unfavourable balance of trade of \$19.9 m.

MONTH	January to March 1948		Recorded Trade Returns		TRADE DEFICIT US\$ millions
	IMPORTS	EXPORTS	CN\$ millions	US\$ millions	
January	2,080,397	19.4	1,738,662	16.2	3.2
February	1,969,006	14.0	1,724,455	12.3	1.7
March	6,557,504	32.3	3,515,126	17.3	15.0
	10,606,907	65.7	6,978,243	45.8	19.9

During the first three months of 1947 China's imports valued (in US\$ million) 44.7; 43; and 35.2 for January, February and March respectively.

Exports valued for the 3 first months of 1947 respectively: 14.3; 16.2; and 11.8 million.

The trade deficit for the first 3 months amounted to respectively 30.4; 26.8; and 23.4 millions.

Total imports in Jan./March 1947 valued US\$ 122.9 m., total exports \$52.3 m., resulting in an unfavourable balance of \$70.6 m.

Business Done

H.K. GOVT. LOANS 1934 3 $\frac{1}{2}$ % @ 101 $\frac{1}{4}$; 1948 3 $\frac{1}{2}$ % @ 101 $\frac{1}{2}$.

H.K. BANKS: @2140, 2150, 2160, and 2165; BANK OF EAST ASIA @ 142.

INSURANCES: CANTON INSURANCE @ 390; UNION @ 780, 785, 787 $\frac{1}{2}$, 785; UNDERWRITERS @ 7, 7.10, 7 $\frac{1}{4}$.

DOCK & GODOWNS: WHARFS Old @ 155, 156, 157, 156; DOCKS @ 32 $\frac{1}{2}$, 32 $\frac{1}{4}$, 32 $\frac{3}{4}$, 33, 34, 33 $\frac{1}{4}$; PROVIDENTS 24, 23 $\frac{3}{4}$, 24, 24 $\frac{1}{2}$; SHAI DOCKS @ 21 $\frac{1}{4}$; H.K. MINES @ 02 $\frac{1}{4}$.

HOTELS & LANDS: H.K. HOTELS @ 83 $\frac{1}{2}$, 83 $\frac{3}{4}$, 84 $\frac{1}{2}$; SHAI LANDS @ 5 $\frac{1}{4}$, 5, 5 $\frac{1}{4}$, 5 $\frac{1}{2}$, 5.65, 5.90, 6, 6.10, 6 $\frac{1}{4}$, 6.40, 5 $\frac{1}{4}$; HUMPHREYS @ 23; CHINESE ESTATE @ 190.

UTILITIES: H.K. TRAMS @ 23 $\frac{3}{4}$, 24, 24 $\frac{1}{4}$; PEAK TRAMS @ 22, 22 $\frac{1}{4}$; NEW @ 14; STAR FERRIES @ 129; LIGHTS O @ 24 $\frac{1}{4}$, 24 $\frac{1}{2}$, 24 $\frac{3}{4}$, 25; NEW @ 19 $\frac{1}{4}$, 20, 20 $\frac{1}{4}$, 20 $\frac{3}{4}$, 20 $\frac{1}{2}$, 21; H.K. ELECTRICS @ 49 $\frac{1}{2}$, 49 $\frac{3}{4}$, 50, 50 $\frac{1}{4}$, 50, 50 $\frac{1}{4}$, 50 $\frac{1}{2}$, 50 $\frac{1}{4}$; TELEPHONES @ 44 $\frac{1}{2}$, 45, 45 $\frac{1}{4}$, 45 $\frac{1}{2}$.

INDUSTRIALS: CEMENTS @ 46, 46 $\frac{1}{4}$, 46 $\frac{1}{2}$, 46 $\frac{3}{4}$, 47; DAIRY FARM Old @ 51, 51 $\frac{1}{4}$, 51 $\frac{1}{2}$; WATSONS Old @ 56 $\frac{1}{2}$, 56.60, 56 $\frac{3}{4}$, 57, 57 $\frac{1}{2}$, 57 $\frac{3}{4}$, 58 $\frac{1}{4}$; NEW @ 52 $\frac{1}{2}$, 53 $\frac{1}{2}$, 54, 54 $\frac{1}{2}$, 54 $\frac{3}{4}$, 55.

STORES: SINCERES @ 8.20, 8.15, 8.20, 8.10; CHINA EMPORIUM @ 12 $\frac{1}{2}$; K. S. HONG 194, 195.

MISCELLANEOUS: CHINA ENTERTAINMENTS @ 41 $\frac{1}{2}$, 43.

COTTONS: EWOS @ 22, 21 $\frac{1}{2}$.

By the end of 1947 China's foreign trade showed increasing export values and decreasing imports (as far as Chinese Customs recorded trade was concerned). Imports in November and December 1947 valued respectively US\$ 26.6 m. and 22.8 m., while exports valued 24.7 m. for Nov. and 27 m. for Dec.

Last December China's recorded trade resulted, for the first time after the end of war, in a favourable balance of US\$ 4.2 m. which, however, was only brought about by heavy Chinese Government shipments to a large extent on consignment basis to a few foreign markets.

Trade Deficit

The current monthly trade deficit runs at US\$ 6 $\frac{1}{2}$ million which, provided that there will not be a change for the worse, should not cause any anxiety in Nanking; the ample free exchange funds supplied by the U.S. and remaining foreign exchange resources of the Chinese Government should permit of about US\$ 75 to 80 million deficit in the foreign trade account of China for 1948.

Import trade has been reduced to the minimum and thus the operation of China's industries has become extremely difficult as raw material supplies from abroad are increasingly curtailed. Exports, on the other hand, cannot well be promoted beyond the level of the last few months; not only that communications are often interrupted, costs of labour and transport are prohibitive and private trade is ever more strangled, but the production in the country of exportable commodities is not increasing.

UNRRA Help

The import position of China during January/March was eased by the continued arrivals of UNRRA goods, the last backlog, it appears, from this international relief organisation. The total value of UNRRA supplies reaching China during the last quarter valued CN\$949 billion or approx. US\$5 $\frac{1}{2}$ million. China was the largest recipient

of UNRRA help having obtained goods to a value of US\$ 529 million (Total UNRRA relief valued US\$ 3,900 m. to which the U.S. contributed US\$ 2,700 m., the remaining \$1,200 m. coming almost only from the British Commonwealth).

Government in Business

The Chinese Government has usurped an increasing share in the nation's foreign trade by operating through corporations and monopolies in

practically all fields. It has been officially admitted in Nanking that the Chinese Government accounted in the Jan./March 1948 period for 30% of total imports and 20% of total exports; private traders, however, credit Nanking with far larger percentages of state trading.

The purchases conducted by the Chinese army, navy and airforce abroad are not included in the trade figures of China.

Officially it is stated that the Chinese authorities were directly importing

tice, wheat, flour, fertilizer, communications equipment and large amounts of petroleum products. Principal state exports were minerals and ores, and sugar.

Private traders, however, know that the Chinese Government has increasingly taken over the importation of almost any kind of machinery and tools, raw cotton and wool, metals, factory equipment, chemicals, dye-stuffs, paper etc.

On the export side the Chinese Government, through its various state

IMPORTS INTO CHINA

FOR THE FIRST QUARTER OF 1948.

In Millions of Chinese Dollars

	January	February	March
Cotton Piece Goods, Grey	22	5	533
Cotton Piece Goods, White or Dyed	972	3,084	6,635
Cotton Piece Goods, Printed	47	73	84
Cotton Piece Goods, Miscellaneous	93	75	502
Cotton, Raw; Cotton Yarn, and Cotton Thread	50,594	261,465	607,312
Cotton Manufactures, Sundry	1,587	751	1,821
Flax, Ramie, Hemp, Jute, and Manufactures thereof	48,618	69,760	195,372
Wool and Manufactures thereof	84,428	50,329	123,296
Silk (including Artificial Silk) and Manufactures thereof	63,891	25,195	33,322
Metals and Ores	195,179	195,978	560,063
Machinery and Tools	264,112	194,302	689,295
Vehicles and Vessels	55,618	43,581	147,621
Miscellaneous Metal Manufactures	116,906	62,437	253,935
Fishery and Sea Products	5,406	3,638	13,243
Animal Products, Canned Goods, and Groceries	8,283	2,699	6,066
Cereals and Flour	32,028	4,684	708,982
Fruits, Seeds, and Vegetables	184	292	188
Medicinal Substances and Spices	8,021	5,843	13,903
Sugar	2,977	1,806	9,975
Wines, Beer, Spirits, Table Waters, etc.	125	292	155
Tobacco	14,704	53,685	258,427
Chemicals and Pharmaceuticals	165,575	119,082	259,499
Dyes, Pigments, Paints, and Varnishes	101,629	85,544	250,587
Candles, Soap, Oils, Fats, Waxes, Gums, and Resins	458,586	406,292	1,206,606
Books, Maps, Paper, and Wood Pulp	135,067	143,803	404,574
Hides, Leather, and other Animal Substances	4,267	3,854	6,740
Timber	116,612	89,464	403,474
Wood, Bamboos, Rattan, Coir, Straw, and Manufactures thereof	3,518	875	18,927
Coal, Fuel, Pitch, and Tar	15,791	1,039	52,368
Chinaware, Enamelledware, Glass, etc.	13,754	9,281	18,364
Stone, Earth, and Manufactures thereof	3,418	3,519	9,370
Sundry	112,365	126,314	296,248
	2,080,397	1,969,006	6,557,504

EXPORTS FROM CHINA

FOR THE FIRST QUARTER OF 1948.

In Millions of Chinese Dollars

	January	February	March
Animals and Animal Products (not including Hides, Leather & Skins (Furs), & Fishery & Sea Products)	312,319	309,359	566,094
Hides, Leather, and Skins (Furs)	18,576	14,730	337,049
Fishery and Sea Products	11,128	7,445	14,681
Beans and Peas	17,173	4,481	45,606
Cereals & Cereal Products	23,340	28,740	106,127
Dyestuffs, Vegetable	1,837	1,082	3,533
Fruit, Fresh, Dried, and Preserved	22,663	22,322	34,357
Medicinal Substances and Spices (not including Chemicals)	10,543	10,427	17,398
Oils, Tallow, and Wax	314,767	474,281	454,158
Seeds	8,143	10,542	21,749
Spirituos Beverages	4,194	1,625	11,397
Sugar	9,314	3,861	270,627
Tea	30,525	31,464	159,977
Tobacco	3,297	7,736	6,614
Vegetables	23,709	23,238	36,591
Other Vegetable Products	6,981	6,848	46,015
Bamboo	4,300	4,800	4,890
Fuel	6,055	14,657	6,078
Rattan	144	142	276
Timber, Wood, and Manufactures thereof	6,223	4,852	10,015
Paper	9,853	8,979	12,064
Textile Fibres	222,051	52,487	98,586
Yarn, Thread, and Plaited and Knitted Goods	131,553	115,381	263,164
Piece Goods	376,246	301,579	561,568
Other Textile Products	28,072	15,077	60,649
Ores, Metals, and Metallic Products	85,714	123,310	214,194
Glass and Glassware	1,264	922	4,866
Stone, Earth, Sand, and Manufactures thereof (including Chinaware & Enamelledware)	14,365	19,910	26,574
Chemicals and Chemical Products	2,366	39,499	5,810
Printed Matter	372	407	2,593
Sundry	31,561	64,258	111,812
	1,738,662	1,724,455	3,515,126

corporations, is selling or shipping abroad on consignment basis large quantities of China produce, especially tung oil, bristles, tea, raw silk, but also manufactured goods, especially cotton yarn and piece goods and a variety of textiles.

The growing participation of the Chinese Government in the foreign trade of China has further reduced the operational field of private business men (Chinese and foreign) and the tendency is unmistakably in the direction of further and stringent monopolisation.

The Chinese Government is also promoting barter trade with foreign governments or private organisations, a practice which further encroaches on the shrinking domain of private traders. Nanking has stated that during the current year some 15½% of the total trade of the nation has been accounted for by bartering between China and several governments abroad.

The share of barter trade in the overall foreign trade of China is bound to rise as it is the policy of Nanking to monopolise as much as possible of the country's trade and production. By adopting bartering it is possible for the authorities to take over with one stroke ever more of China's exports and imports.

Barter trade with Japan, while still small, appears to be the policy of the future as far as Nanking is concerned.

Appointed Banks' Records

While China's first quarter exports and imports amounted to respectively US\$ 45.8 m. and \$65.7 m., the commercial banks in China (as far as licensed by Central Bank of China to carry on foreign exchange business as "arranging" banks) reported for the period Jan./March total sales (for imports) of US\$ 46.4 m. and total purchases (from exports) of US\$ 34.8 m. Month by month the appointed banks' sales were: US\$ 17.1 m., 14.3 m., 14.1 m.; and purchases were: US\$ 14.8 m., 9.2 m., 10.7 m.

China's Official Open Market Exchange Rates

The official so-called open market exchange rates, established by Central Bank of China and announced by the foreign-advised Foreign Exchange Equalisation Fund Committee at Shanghai, for the first three months of 1948 were as follow:—

January US\$ 9.36 per CN\$1 million, February US\$ 7.15, March US\$ 4.93.

The sterling cross rate of Central Bank of China was US\$ 3 in March, and one US\$ was officially ("open market") valued at HK\$ 5.337.

In the first 3 months of 1947 the official Chinese exchange rates (per one million CN\$) were:—Jan. US\$ 296.74, Feb. US\$ 198.30, March \$18.97. The official rate in December 1947 was US\$ 12.80.

The current black market rate is about US\$0.80 per one million Chinese dollars.

Recorded and Unrecorded Trade of China

For statistical purposes the Chinese Maritime Customs value imports at their c.i.f. value and exports at their f.o.b. value, a practice which is internationally accepted. Only for duty paying purposes import values are taken at their wholesale market price in the port of arrival.

Many exporters are underdeclaring the value of their cargo in order to be obliged to surrender to the appointed banks a smaller amount in foreign exchange. This practice is rather generally adopted in South China and connived at by the Chinese authorities in order to enable certain exporters to remain in business. Apart from this widespread irregularity which tends to upset the trade statistics of China there are many imports arriving in the country which, for a variety of reasons, understate the value of merchandise.

The most important factor which, to a large extent, invalidates conclusions to be derived from the official trade figures of China is the large-scale illicit trading which is conducted both by professional smugglers and by powerful politically and army controlled cliques.

The unrecorded trade of China, in spite of some improvement made this year against the earlier part of 1947, is very large, both imports and exports. Excluding the illicit bullion trade (gold imports and silver exports), the unrecorded imports considerably outweigh unrecorded exports, thus the actual unfavourable balance of trade (merchandise) of China is much in excess of the officially recorded figure.

Trade by Countries

From the table the relative importance of China's foreign trade partners will be seen. As regards imports into China the leading countries this year are:—U.S., India, Britain, Siam, Canada, Persia, Netherlands Indies and Hongkong.

As regards exports from China the leading countries are:—Hongkong, U.S., Great Britain, Philippines, Japan, Soviet Union, Malaya, India, Siam.

Percentages of China's Imports & Exports by Countries:—for the first quarter of 1948 & 1947

	Imports		Exports	
	1948	1947	1948	1947
	%	%	%	%
Abyssinia	—	—	0.11	—
Aden, Perim, etc.	1.08	0.28	1.11	0.05
Arabia	1.81	0.07	1.26	0.03
Argentina	0.08	0.30	0.02	0.03
Australia	1.14	3.11	0.27	0.71
Belgium	1.97	2.56	1.14	1.14
Brazil	0.02	0.21	0.01	0.17
British East Africa	0.29	0.01	0.95	—
British North Borneo	0.96	0.03	—	—
Burma	0.24	0.15	0.36	1.60
Canada	5.63	4.54	0.48	0.32
Czechoslovakia	0.10	0.32	—	—

	1948	1947	1948	1947
Denmark	0.05	0.06	0.62	0.12
Egypt (incl. Anglo-Egyptian Sudan)	0.21	0.70	1.12	0.92
Finland	0.11	0.42	—	—
France	1.09	0.71	0.65	1.46
French Indo- China	0.57	1.71	0.30	0.42
Germany	0.02	0.02	0.07	—
Great Britain	7.06	10.18	5.42	7.73
Hongkong	2.13	1.85	33.32	42.02
India	10.96	3.71	2.64	3.92
Iran (Persia)	4.37	2.55	0.01	0.55
Italy	0.43	1.46	0.39	0.70
Japan	2.01	0.29	4.57	4.18
Korea	0.06	—	—	—
Macao	0.25	0.10	0.73	1.76
Malta	—	0.04	0.11	—
Mexico	—	0.07	0.03	0.03
Morocco	—	—	0.26	1.66
Netherlands	0.18	0.95	0.50	0.90
Netherlands East Indies	3.03	0.19	0.28	0.03
Norway	0.50	1.16	0.03	0.36
Peru	0.06	0.64	—	—
Philippine Islands	0.12	0.18	4.92	1.42
Siam	5.83	0.59	2.14	0.46
South Africa	0.04	0.38	0.04	0.08
Malaya, Singa- pore	1.68	2.16	2.71	2.34
Sweden	0.88	0.72	0.34	0.64
Switzerland	1.26	2.46	0.53	0.25
U.S. of America	42.97	54.31	27.84	20.69
U.S.S.R.	0.44	0.13	3.73	2.81
Other Countries	0.37	0.68	1.00	0.50
Total	100.00	100.00	100.00	100.00

COMPARISONS WITH THE TRADE OF HONGKONG

The trade of Hongkong for the first quarter of 1948 aggregated a total value of US\$190.5 million; viz. US\$ 110.4 m. for imports and US\$80.1 m. for exports. Against the period Jan./March 1947 the trade of Hongkong in 1948 improved by 41% (total trade in 1947 first quarter: US\$142.3 m.).

China's participation in the British Colony's trade has successively decreased during the post-war years. In the first quarter of 1948 the share of China, including 75% of the trade between Hongkong and Portuguese Macao, amounted only to 22% as regards the import trade of Hongkong, and 21¾% as regards the export trade of Hongkong.

The Colony's trade figures, in contradistinction to those of China, are accurate (within the natural limitations of statistics generally).

Comparing the recorded trade of China in the first quarter of 1948 with the trade returns of Hongkong for the same period, it appears that the Colony's trade was 66 per cent larger than all China's trade.

With all due adjustments of China's recorded trade figures by estimating the volume of unrecorded exports from and imports into China, the conclusion will still remain that the total trade of China in 1948 has considerably decreased and is, in terms of US\$, greatly exceeded by the trade figures of the Colony of Hongkong.

COAL OUTPUT IN CHINA

Official estimates placed the 1946 coal production for all China at approximately 11,500,000 metric tons, with possibly 2,000,000 tons additional produced by smaller, individually operated pits on which no data are available. Production forecasts for 1947 ranged from 18,000,000 to 20,000,000 tons and one estimate was even higher, approximately 22,000,000 tons.

Actual production during 1947 has not been determined with accuracy, but it is known that it fell considerably below predicted levels. Even more important, much of the coal actually mined could not be transported to consuming areas, with the result that by the end of 1947 coal shortages of varying degrees of intensity were in evidence throughout all the industrial centres of China. To supplement domestic production the Government had earmarked a reported US\$2,000,000 for the emergency importation of foreign coal, but such imports were held to a minimum because of the stringency of foreign exchange and probably did not exceed 100,000 tons.

Unprecedented military successes of the Communist armies in the North and Northeast effectually severed Nanking from most of its immediate coal-producing potential.

The following statistics indicate that 1947 estimated production represented only 76 percent of the 1947 forecast, although it did exceed 1946 production by nearly 29 percent. The true picture is not revealed, however, until it is realized that millions of tons were lost to the market by the virtual shut-off of communications with the North.

Coal Production: All China [In 1,000 metric tons]

Area	Estimated 1946 ¹ production	Estimated 1947 forecast	Projected production
Northeast	2,837	5,000	4,422
North	5,112	7,380	6,109
Central	931	3,907	1,609
South		3,907	7
Southwest	1,255	819	1,163
Northwest	275	780	307
Taiwan (Formosa)	1,058	1,500	1,100
Total	11,468	19,386	14,771

The UNRRA contribution of US\$12,000,000 worth of coal-mining equipment, power, and machine tools is believed to have added some 4,000,000 tons to the nation's 1947 coal production. Notwithstanding this timely and much-needed assistance, however, huge additional outlays of capital will be required, once some semblance of

political stability is achieved, to raise coal production above its present critically low levels.

The National Resources Commission, recognizing that China may be cut off from regular supplies from the North for months or years to come, is now directing its efforts to developing such deposits as exist in as yet noncombat areas. Exploitation of these, even to the extent of their relatively limited potentials, will be a difficult and time-consuming task.

CHINESE BRISTLE EXPORTS

Bristle shipments from Shanghai in February totalled 307,400 pounds, valued at US\$563,585, equal to somewhat more than half of the extraordinarily large January shipments of 526,755 pounds valued at US\$1,026,868, and larger than the 1947 average of 222,237 pounds valued at US\$553,153.

About 18 exporters participated in the February shipments, and the Central Trust and the Szechuan Animal Byproducts Co. (Koo Chin Kee & Sons), together, have taken only about three-fifths of the business in contrast to their recent near monopolization.

Shipments of Bristle From Shanghai, February 1948

Sizes & assortments	Number of cases shipped	Prices per pound c.i.f. New York
Shanghai Black: 2" to 6" (No. 17) ..	425	(US\$1.50 (to 4.00
2" to 4 1/4"	25	1.80
2 1/4" to 2 1/2"	15	1.00
2 1/2" to 6"	50	1.80
2"	50	2.20
Chungking Black: 2 1/4" to 6" (No. 27) ..	450	(2.10 to (2.00
Riflings	550	.53
Riflings—6"	350	(1.86 to (2.20
2" to 6" (No. 17) ..	3	1.80
Chungking Spotted: 2 1/4" to 6" (No. 27) ..	50	1.85
Hankow Black: 2"	25	1.00
2" to 3" (No. 5) ..	150	(1.37 to (1.40
2" to 6" (No. 17) ..	125	(3.00 to (3.30
Tientsin Black: 2 1/2" to 6"	55	12.00

Prices in Tsingtao for the 55-case assortment of bristle during the month of January 1948 were about US\$5 per pound c.i.f. Pacific Coast ports, compared with the New York price of about \$4.80 per pound. Business is, in spite of these price and exchange discrepancies and difficulties, expected to be resumed to some extent in the near future.

The shipments, contracted for in November and December 1947, were made in January at \$3.70 and 3.82 per pound c. and f. New York.

Exports to England during January consisted of 132 1/2 cases (1 1/2 55-case assortments and one-half of a 100-case assortment) at the price contracted for in September 1947 of 29 shillings per pound.

February bristle exports from Tientsin, to the United States aggregated 180,438 pounds valued at US\$587,000.

The average export value for bristles shipped to the United States was US\$3.254 per pound f.o.b., Tientsin, in February as compared with US\$2.704 in January and US\$2.363 and US\$3.742 in December and November.

Although February shipments exceeded those of January, new business was hampered by a widening spread between the official open market and the black market exchange rate for United States dollars; exporters are forced to buy at prices that are pegged on black market exchange rates and accept reimbursement through local banks at or near the open market rate. The difference between the black and the "open market" rate is usually over 100%.

Tientsin exporters reported that notwithstanding a strong demand for bristles in the New York market, under Chinese exchange conditions in March, their base costs were at least 35 percent above New York quotations. At times costs are over 50% over New York prices.

SHANGHAI HIDES TO U.S.

Declared exports (at the U.S. Consulate) from Shanghai, to the United States during January 1948 included 22,203 pounds of buffalo hides, 1,555 pounds of cowhides, 94,960 goat and kid skins (55,195 pounds), and 29,471 sheep and lamb skins.

TAIWAN CITRONELLA OIL EXPORTS

About 68,000 pounds of citronella oil were shipped from Shanghai to the United States during 1947 and the first 2 months of 1948. This oil is produced in Formosa along the northwestern coast, especially near Tahu, Mori, and Taichu. The oil is of the Java type. The plant is grown on small plantations started by the Japanese in 1939. Total annual production is estimated at 200,000 pounds and is reportedly increasing.

The largest portion of the Formosan oil is exported to the United States. A smaller percentage goes to Europe, and about 20 percent is used in Chinese manufacture of cosmetics. Prospects for trade in citronella oil are reportedly rather good.

CHINA'S SHIPPING FOR THE FIRST QUARTER OF 1948

For the months of January to March 1948 China's foreign shipping aggregated 4,978,317 tons including Chinese junks, and 4,492,295 tons excluding Chinese junks.

A total of 1,570 foreign ships called on China and left her ports; in addition 10,679 Chinese vessels and 6,438 junks were entering from and were clearing for abroad.

As against the first quarter of 1947, when Chinese foreign shipping aggregated 3,849,983 tons excluding junks (4,174,235 tons including junks), the present statistics show an improvement of 16.7% (an increase in tonnage of 642,000).

By comparison with the port of Hongkong the Chinese shipping figures

are small. Hongkong's first quarter 1948 shipping (ocean and river) aggregated 4,345,922 tons, that is only 146,000 tons less than all of China.

Hongkong's shipping in Jan./March 1947 totalled 3,607,000 tons. Accordingly, the improvement in Hongkong's 1948 first quarter shipping against 1947 first quarter shipping amounts to 20½% (an increase in tonnage of 739,000).

Shipping by Flags

British ships have, once again, resumed the first place in China's shipping. During the first quarter of 1948 British ships were to the fore and promise to keep the leading position in the future.

Of the total shipping tonnage (entered and cleared) British ships accounted for 27.1%. Chinese vessels were second with 23.3% of the total. American ships, previously in the first place since the end of the Pacific war, took third place with 23.3%.

The fourth to seventh places were held by Dutch (with 6.3%), Panamanian (with 5.8%, a large part of these ships being actually owned by British shipping firms who prefer, for a variety of reasons, to register their tonnage under Panamanian law), Norwegian (with 5½%) and Danish (with 3.7%).

Shipping by Ports

As far as tonnage, entered and cleared, is concerned the port of Shanghai remained in the leading position during the first quarter of 1948 with 51% of the total.

After Shanghai came practically only South China ports with tonnage figures recorded between 150,000 to 525,000; all other ports especially in North China recorded small to insignificant tonnage figures.

Following Shanghai was the port of Kowloon (meaning the Chinese Customs stations in the vicinity of the British Crown Colony) which accounted for 10½% of total tonnage. Next came Canton with 9%. Fourth place was held by Lappa (meaning the Chinese Customs stations in the vicinity of the Portuguese Colony) with 7.8%. Swatow, Amoy and Kung-moon followed, in the order, with respectively 5.5, 4.9 and 3% of the total.

With regard to the Customs recorded import and export value of merchandise, a different order of importance of Chinese ports becomes apparent.

Leading Chinese ports as to Chinese Customs recorded import value of merchandise were:—Shanghai with 80.2% of total value, Kowloon and Canton with each accounting for 3.4%, Tientsin with 2.9%, Chinwangtao 2%, Tsingtao 1.4%, Amoy 1.2%, Taipeh 1%, other ports under 1%.

Leading Chinese ports as to recorded export value of merchandise were:—Shanghai 63.8%, Canton 12.4%, Kowloon 7.5%, Tientsin 6.7%, Tainan 3.5%, Swatow 1.7%, and all other ports under 1%.

From the tonnage figures of China's foreign shipping it appears that the Chinese Customs compilations with regard to value cannot be relied upon for accuracy which is a consequence of the widespread smuggling and protected but unrecorded trading between China and foreign countries.

The two summarised tables for China's first quarter 1948 shipping give the number of ships and tonnage of vessels entered and cleared, by ports and by flags.

SHIPS ENTERED FROM AND CLEARED FOR ABROAD — BY PORTS —

January—March 1948.

Port.	Total	Entered	Cleared.
	No. Tons.	No. Tons.	No. Tons.
Chinwangtao	8 26,839	4 14,781	4 12,058
Tientsin ..	18 64,372	7 26,280	11 38,092
Chefoo ..	8 280	8 280	—
Tsingtao ..	10 24,728	5 9,353	5 15,375
Shanghai	693 2,546,884	345 1,261,734	348 1,285,150
Wenchow ..	2 26	1 13	1 13
Foochow ..	27 46,176	13 21,633	14 24,543
Amoy ..	100 243,884	52 125,314	48 118,570
Taipeh ..	56 138,185	28 73,276	28 64,909
Tainan ..	22 75,529	10 34,119	12 41,410
Swatow ..	175 277,834	89 152,083	86 125,751
Canton ..	2,193 451,291	1,081 226,095	1,112 225,196
Kowloon ..	7,231 525,561	3,567 265,500	3,664 260,061
Lappa ..	6,435 388,817	3,221 197,917	3,214 190,000
Kung-moon ..	1,613 150,531	816 78,195	797 72,336
Kiung-chow ..	13 3,658	6 1,715	7 1,943
Pakhoi ..	83 13,722	39 6,743	44 6,979
Total ..	18,687 4,978,317	9,292 2,495,031	9,395 2,483,286

SHIPS ENTERED FROM AND CLEARED FOR ABROAD — BY FLAGS —

January—March 1948.

Flag.	Total	Entered	Cleared.
	No. Tons.	No. Tons.	No. Tons.
American ..	332 1,039,096	163 505,907	169 533,189
British ..	860 1,218,802	433 630,827	427 587,975
Chinese (excl. Junks)	10,679 1,046,984	5,331 514,326	5,348 532,658
Chinese Junks ..	6,438 486,022	3,175 243,472	3,263 242,550
Danish ..	47 164,978	24 85,462	23 79,516
French ..	2 14,750	1 7,375	1 7,375
Japanese ..	5 17,560	2 8,026	3 9,534
Netherlands ..	60 282,764	31 146,183	29 136,581
Norwegian ..	110 250,395	54 126,241	56 124,154
Panamanian ..	46 260,336	22 122,043	24 138,293
Philippine ..	23 51,643	12 26,883	11 24,760
Portuguese ..	34 10,538	17 5,269	17 5,269
Swedish ..	17 58,360	10 33,480	—
U.S.S.R. ..	7 19,192	3 9,128	4 10,064
Others ..	27 56,897	14 30,409	13 26,488
Total ..	18,687 4,978,317	9,292 2,495,031	9,395 2,483,286

PUBLIC UTILITIES AND PUBLIC COMMUNICATIONS OF HONGKONG

Report by the Hongkong Government

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WATER SUPPLY

The Colony's water supply is undertaken by the Public Works Department of the Government.

There are no large rivers or underground sources of water and the Colony has to depend for its water supply on the collection in impounding reservoirs of the rains falling on upland gathering grounds. These reservoirs are thirteen in number and collect the heavy south-west monsoon rains between May and September. Little rain falls in the remaining months of the year, so that the storage necessary to provide for an all-the-year round supply and for occasional droughts is relatively heavy.

The total capacity of existing reservoirs is 5,970 million gallons, only 2,462 million of which are on the island. Of the 3,608 million gallons on the mainland, 2,921 million are contained in the Jubilee Reservoir at Shing Mun.

This reservoir is the largest in the Colony and the dam forming it is the tallest in the Empire.

To augment the run-off from areas draining directly into the reservoirs about 33 miles of catchwater channels have been constructed on the hillsides to lead the water from other areas, normally draining elsewhere, into the reservoirs.

New Reservoir

Despite the completion of the Shing Mun Valley Scheme in 1941, the increased growth of the population resulted in a demand still in excess of the available resources, and investigations were commenced for a new source of supply in Tai Lam Chung Valley on the mainland.

This work has been recommended during the year with extensive drilling and a geophysical survey, which it is hoped will enable an early start to be made on a new scheme which will approximately double the Colony's water resources within the next ten years.

Services & Costs

Slightly over 40% of the Island's consumption is supplied from the mainland reservoirs, the water being conveyed across the harbour in two 21" diameter submarine pipes. On account of the hilly nature of the Island a big percentage of the water has to be pumped, and in some areas re-pumped, necessitating a large number of pumps and service reservoirs.

Most of the water supplied is both filtered and purified by chemical treatment and a satisfactory standard of purity is maintained.

All water is supplied to consumers through meters and the charge is based on the total of provision including capital charges.

The system of recording and computing statistics, hurriedly reinstated

at the re-occupation, has been completely revised and improved, and the rehabilitation of the Waterworks has progressed to such an extent that daily consumption reached record figures both on the island and mainland during the year. Owing to the late end of the rainy season it was found possible to maintain an unrestricted supply till the end of the 1947. The purification of the filtered water has suffered somewhat owing to the failure of supplies of Chlorine Gas which necessitated a reversion to the use of Chloride of Lime.

Rehabilitation & Extensions

The entire 8,000,000 gallons filtration plant, which was looted during the Japanese occupation, has now with the exception of the pumps been replaced, although construction work has not yet started. The Botanical Gardens Service Reservoir whose capacity had been reduced by leakage to little more than 1,000,000 gallons, has now been restored to its full capacity of 4.6 million gallons: it is from this reservoir that the city area on the island is supplied. Major repairs were also carried out to Piper's Hill Service Reservoir and to the granite pitching of the main dam at Jubilee Reservoir. The stock of sand at the Slow Sand Filters which had reached a dangerously low level during the occupation was gradually built up during the year; some of this plant is to be replaced by filters of the rapid gravity type in the near future.

Considerable difficulty has been experienced in obtaining adequate supplies of pipe, but, in spite of this, some 26,000 feet of main from 1½" upwards on the Island and 7,300 feet on the mainland were laid; these works included extensions and improvements of the existing system as well as the replacement of outworn piping. All pedestal hydrants and most of the ground hydrants have been repaired or replaced.

The restoration to its pre-war efficiency of the meter service has also been retarded by difficulties of supply, but the receipt of 7,000 new meters from England and the completion of 18,700 repairs to existing meters enabled the service to be partly restored, so that by the end of 1947 about 23,300 consumers were registered.

ELECTRIC POWER SUPPLY

The generation of electric power is in the hands of two private companies one of which operates on the Island of Hong Kong and one in Kowloon and the New Territories.

Supply on the Island

In 1941 the generating plant of the Hong Kong Electric Company which supplies the Island of Hong Kong, had a total capacity of 54,000 kw. The

plant was severely neglected during the Japanese occupation, and it was only with difficulty that on the liberation of the Colony a generating capacity of 17,000 kw. was achieved. As a result of strenuous efforts on the part of the company's staff, the capacity has been greatly increased and at present stands at 25,000 kw. supplied by high pressure equipment and 16,500 kw. by low pressure equipment. The capacity of the boilers is 232,000 lbs.

The demand for current has continued at a very high rate and, to satisfy this demand, it has been necessary for the plant to be operated almost continuously without proper overhaul and without maintenance up to the normal standard. For this reason and particularly in view of the non-arrival of essential spares for the generating station, it was necessary during the year under review to limit the peak load to 16,500 kw.

In spite of this restriction, 2,223 new consumers were connected to the supply during 1947, and at the end of the year the total number of consumers was 38,227.

In addition, 257 street lamps were replaced: this work had hitherto been severely delayed by the shortage of cables and spare parts.

Altogether 63,983,401 units of electricity were sold by the company during 1947.

The charges for electric current were successively reduced during the year as operating conditions improved. In January the charges for lighting and power for domestic consumption stood at 48 cents and 16½ cents respectively. By December, these figures had been reduced to 37 cts. and 14 cts. A proportionate reduction was also effected in the charges to industrial consumers.

The cost of coal and other materials continues to be high and further reduction in the near future is not considered to be likely.

Outlook for 1948

It is not expected that this company will be able to increase its output of current during 1948 and it may well become necessary even to apply further restrictions on the supply at peak load periods.

New equipment ordered in England in 1945 and due for delivery in the latter half of 1947 has not yet arrived and the present equipment being generally in an overloaded and overstrained condition must be husbanded as well as the circumstances permit.

Plans are well advanced for the conversion of a part of the existing boiler plant to oil firing. It is hoped that in due course this will result in further reduction in the charges for supply of current to consumers.

Supply on the Mainland

The China Light and Power Co., Ltd. who are suppliers of electricity to

Kowloon and the New Territories have made great strides in the rehabilitation of the Company's undertaking during the past year. Reconditioning of the 12,500 kw. turbo alternator, which had not been brought into operation since the war, was completed during the year and the total generating capacity of the station in December, 1947, amounted to 30,500 kw. A further 20,000 kw. high pressure turbo alternator is at present being erected and when this has been done the total capacity of the station will be 50,500 kw. The boiler plant capacity is 465,000 lbs., of which units amounting to a capacity of 185,000 lbs. have been converted to oil firing.

Further new equipment consisting of a 20,000 kw. turbo alternator and a new oil-fired high pressure boiler has been ordered; the latter is expected to be installed by the end of 1949, but the generator will probably not be delivered before the second half of 1952.

During the course of the year, the charges for the supply of current have been reduced on four occasions. The following are the comparative figures for 1941, 1946 and 31st December, 1947:

	31st December,	
	1941.	1946.
Lighting ...	18 cts.	71.28 40 cts.
	+10%	cts.
Power	7 cts.	27.72 18 cts.
	+10%	cts.
Cooking &		
Heating ..	5 cts.	19.8 13 cts.
	+10%	cts.

The factors which have made these reductions possible are, apart from economy in the operation of the company's plant, the increase in sales of current during the year and the gradual elimination of thefts of current.

During the course of the year 483 new factories were connected to the Company's mains.

SUPPLY OF GAS

The Hong Kong and China Gas Company, which supplies domestic gas to consumers on both sides of the harbour, was first established in the Colony in 1861.

The neglect to which the Company's plant was subjected during the enemy's occupation of the Colony has not yet been entirely remedied in spite of the intensive efforts of the Company's staff. Great difficulty is being experienced in clearing mains which became choked during the war years, and supplies of replacement materials are still not satisfactory.

A considerable demand for new supplies of gas is being encountered, and is being met as speedily as the delivery of appliances and other essential materials will allow. In spite of difficulties, there has been a large increase in output during 1947 both in Hong Kong and Kowloon.

Progress has been made in the extension of street lighting during the past year, and further extensions are being made as rapidly as new supplies of lamps and standards to replace those destroyed during the occupation will permit.

THE TRAMWAY ON HONGKONG ISLAND

The Hong Kong Tramway Company operates just over 19 miles of track— or 10 route miles. Its fleet of passenger cars is now restored to its pre-war strength of 112, and the full pre-war service involving the daily operation of 92 cars was restored during the latter part of the year.

The number of passengers carried and the annual mileage covered have not yet reached their pre-war level, but evidence of the intensive and effective efforts of the management to overcome all difficulties is provided by the following figures:—(in millions):—

	1941	1946	1947
Passengers Carried	80	50½	66½
Car mileage	4¾	2½	3¾

In view of the fact that only 15 tramcars were found to be serviceable when the Japanese surrendered, that overhead equipment had been largely dismantled, that workshops, stores and maintenance depots had been looted and stripped of plant, tools and machinery, and that supplies of replacement materials were slow and uncertain, it must be considered that a great deal has been done in the last two years. Rehabilitation is, of course, not yet complete: for instance while the general condition of the track is satisfactory, the renewal of certain sections, already overdue, cannot be effected until the delivery of new rails takes place.

Although labour and operating costs rose during the year (especially labour costs which were increased by 50% in September as a result of strike action) the Company's fares were maintained at the same level throughout the year.

The fares are charged upon a flat rate for any distance over any route, the maximum distance being 6½ miles. Two classes of accommodation are provided: the 1st Class fare is 20 cents and the 3rd class 10 cents. These fares are exactly twice the pre-war fares.

THE FUNICULAR TEAMWAY

The Peak Tramway, or as it was then known, the Hong Kong High Level Tramway, was first opened for traffic on 2nd May, 1888, and has provided almost without interruption since that time one of the fastest funicular services in the world. The steepest gradient (at May Road) is 1 in 2. The original winding gear was steam driven and the cars were attached to each end of a single rope, but this system was not very satisfactory and in 1926 electric winding gear consisting of two drums in tandem with separate ropes of 5,000 feet was installed. This installation is still in use today.

Until 1924, when Stubbs Road was opened, it was the only means of transport to the Peak. The subsequent construction of Magazine Gap Road and the closing of the Peak Hotel detracted greatly from its traffic. Nevertheless, a fifteen minute service of 97 cars daily was maintained from 6 a.m. to 12.15 a.m. until the Japanese attack on Hong Kong. During the hostilities con-

siderable damage was done to the track, engine house and other installations. After repair, a limited service was run during the Japanese occupation until August 1944, when operation ceased altogether.

The liberation of the Colony found the workshops stripped of equipment and tools and the Company's premises looted. Reconstruction was delayed by lack of equipment until November, 1945, but on Christmas Day of that year a service of 25 cars daily was started again. At first traffic was entirely casual, but, with the repair of houses on the Peak, regular traffic grew and many workmen began using the cars daily.

This service has been gradually increased until now 43 cars a day are run and extra cars whenever fine weather and holidays attract the casual traffic, on which the tramway now relies to a great extent. Regular traffic has declined during 1947 (particularly traffic to the mid-levels) but casual traffic has been heavier in 1947 than during 1946.

Reconstruction, within the limits of the materials and spare parts available, has continued throughout the year. The spare car has been almost entirely rebuilt and is now in service. The other cars are to be reconditioned as soon as possible.

THE TELEPHONE SERVICE

An automatic public telephone service is provided by the Hong Kong Telephone Co. Ltd. In 1941 the company was serving 14,000 lines on Hong Kong Island and 5,100 on the mainland, as well as a system of 500 government and military lines on a separate automatic exchange.

The company's equipment suffered neglect and under-maintenance during the Japanese occupation and a large amount of moveable stores and equipment was lost but every effort was made during 1946 to cope with the ever increasing demand for telephone services.

Altogether, by the end of 1947, some 15,000 exchange lines had been put into service and 110 private branch exchanges of all sizes installed. Nevertheless, it is still not possible to supply service on demand, as replacements for out-worn equipment are subject to considerable delays in delivery.

These difficulties have, for the time being, prevented the planned expansion of the service to 28,000 lines. The Peak Exchange and exchanges at Tsun Wan, Fanling and Tai Po which were destroyed in 1941, are being rebuilt and a 12-storey building is to be erected in Kowloon during 1948 for the purpose of housing an additional exchange to cover future development on the mainland and to provide accommodation for the company's staff.

During 1947 radio-telephone services between Hong Kong, Manila and Canton were re-opened.

The cost of service which had risen in 1946 to 50% above 1941 rates, was maintained at that figure in spite of the continuing general rise in the cost of materials and operation throughout the year 1947.

PUBLIC MOTOR BUS SERVICES

Bus service in Kowloon and the New Territories are maintained by the Kowloon Motor Bus Company and on Hong Kong Island by the China Motor Bus Co., in accordance with franchises granted by the Government.

Both companies have been hindered by the unsatisfactory supply position in fully reopening their bus routes and services; particularly difficult was the delivery of bus chassis from the United Kingdom and tools and machinery. The use of makeshift buses constructed from lorry chassis with built-on superstructure, was begun as an emergency measure in 1946, but it had to continue through 1947 in order that adequate services to cope with the traffic might be maintained.

In Kowloon, 68 buses and 75 improvised buses were employed, and almost all pre-war bus routes were restored and a number of new bus routes between Kowloon and the New Territories were instituted.

On the Island two further bus routes were resumed and the position is now that the 7 principal routes in operation before the war are once again open for traffic.

30 buses ordered during the Military Administration were delivered to the Kowloon Bus Co., and a further order for 50 buses including 20 double deckers, was placed during the year. The China Motor Bus Co. was not so fortunate in its deliveries of buses ordered from England.

Operating costs in both companies increased during the year, principally on account of a rise in wages agreed between the company and the employees during the years.

The heavy traffic which was experienced on all routes enabled the companies to absorb this increase in running costs without transmitting it in the form of increased fares to the public, and the general level of fares is about 100% greater than before the war. The Kowloon Bus Co. was also to make substantial reductions on the fares on suburban routes.

PUBLIC AND PRIVATE MOTOR VEHICLES

A notable increase in the number of vehicles using the road was remarked during 1947. At the end of 1947 the number of load-carrying vehicles had risen from 1,152 to 2,338.

Taxis and public cars also showed a large increase totalling 595 against 195 at the end of 1946.

The number of private cars registered with the Police was 3,714 compared with 1,450 in 1946.

393 motor cycles were also registered.

PUBLIC ROADS

The building and maintenance of roads in Hong Kong are subject to unusual topographical and climatic difficulties. In most parts of the Colony

the construction of a roadway, by virtue of the hilly nature of the country, involves considerable blasting operations. On the other hand the rock is not difficult to blast and is suitable for road making so that there is no shortage of road-metal in the Colony.

The climatic difficulties are no less considerable, since the heavy downpours of rain which are common during the summer months are sufficient to cause grave damage to any road surface which falls short of a high standard of maintenance and the repair of the damage once caused is liable to be made more difficult and expensive by further rains.

In spite of these difficulties Hong Kong is reasonably well served with roads. Although the total area of the Colony is only 391 square miles, over 400 miles of roads are maintained, 173 miles of which are on the island of Hong Kong, 106 in Kowloon, and the remainder in the New Territories. About 90% of these roads are of modern metallised construction.

Repairs and Building in 1947

The increasing weight of traffic and the heavy rains during the summer of 1947 caused a progressive deterioration in the roads, weakened as they were by neglect during the period of the Japanese occupation. Repair work was much hampered by lack of plant and quarry facilities, as well as by the weather. Some plant arrived during the year but, in general, delivery from England was far behind schedule.

The quarry at Hok Un had been left in a very bad state by the Japanese, but the framework of the plant remained, and, by much improvisation and repairs carried out locally, aided by portable plant, a satisfactory output was achieved by the middle of the year. The installation of newly arrived plant caused a further progressive improvement.

The pre-war quarry at Tsat Tse Mui was completely destroyed, and, to ensure a supply of stone for works on the island, a contract was let for the production of graded crushed stone from Morrison Hill which eased the situation very considerably. On completion of the contract the quarry will be taken over by Government when plant is available.

Despite these handicaps and a serious shortage of road rollers, a large programme of works was carried through. On the Tai Po Road, at Chek Nai Ping, the pre-war bridge had been replaced by the Japanese by an entirely inadequate culvert, with the result that there was grave danger that the road would be washed away during heavy rains. Advantage was taken of the necessity of replacing this culvert to carry out a realignment of the road over a distance of about $\frac{1}{4}$ mile, eliminating two dangerous bends.

Other major works carried out were the resurfacing of a section of Queen's Road West, a section of Chatham Road, Bonham Strand West and various other roads chiefly in the Wanchai and Yaumati areas. The Japanese-constructed road to Sai Kung was improv-

ed and resurfaced whilst surface sealing was carried out on about 20 miles of road in various districts.

In addition, general repairs and maintenance were carried out throughout the Colony during the year, and about \$400,000 worth of damage caused by the heavy rains in the summer was made good.

PUBLIC FERRY SERVICES

The year 1947 was marked by further progress in the restoration of the ferry services to the pre-war standard.

The Star Ferry which operates the shortest crossing of the Harbour from a point in the centre of Victoria to Tsim Sha Tsui at the southern extremity of the Kowloon Peninsula, maintained a ten minutes service with four launches throughout the year: towards the end of the year the five-minutes service which was normal before the war was reintroduced at rush hours. A fifth launch, salvaged from the Pearl River at Bocca Tigris, has been entirely reconstructed, and should be in service again shortly. The sixth and last of the Company's pre-war fleet is not expected to be in service until the end of 1948.

Services on the routes operated by the Hong Kong and Yaumati Ferry Company were also further improved. Sailings on the Mongkok and Shamshui po routes were increased to a 12 minute service during rush hours, and the hours of service were extended. The frequency of the Jordan Road passenger service was also increased, and there are now four sailings to Cheung Chau daily and six on Sundays and holidays. Some of the routes in operation before the war have not yet been reopened for the lack of ferry piers, and the existing services are consequently congested with extra traffic from such thickly populated areas as Kowloon City, Hung Hom, Sai Wan Ho and Tsun Wan.

The vehicular ferry at the beginning of the year was maintaining a 40-minute service: this was reduced first of all to 36 minutes, and later with the repair of a second launch to a service alternating between 12 and 24 minutes. The hours of service were also extended. Nevertheless, for the greater part of the year the congestion on this route was such that vehicles frequently had to wait 2 or 3 hours for a passage. The completion of repairs on the third vessel, which, it is hoped, will be achieved in April or May 1948, will enable the company to provide a 12-minute service throughout the day.

Operating costs have remained at a high level and have even in some respects increased, and although traffic has become heavier even than before it has not been possible to reduce the fares for fare-paying passengers. Season tickets, however, became available once more on the Star Ferry route.

TELECOMMUNICATION SERVICES

The Postmaster General, is responsible not only for the maintenance of the postal services with the Colony as well as outside, but also for the Government telecommunication service and the operation of the broadcasting stations (Z.B.W. and Z.E.K., Hong Kong). In the sphere of telecommunications he is also responsible for co-operation between the Government and Cable and Wireless Ltd. in whose hands commercial radio services lie.

A close degree of co-operation exists between the Government Telecommunications Service and Messrs. Cable and Wireless Ltd. in the provision of telecommunications services for all purposes within and without the Colony. Commercial fixed point radio services are operated by Cable and Wireless Ltd. and are controlled from a central telegraph office in Victoria. The transmitters and receivers for these services are at the Government Radio Stations at Cape d'Aguilar and Victoria Peak where they are operated on behalf of Cable and Wireless Ltd. by personnel of the Government Telecommunications Department.

Plans are at present being made for further development in this co-operation involving expansion at Cape d'Aguilar to the transmitters, accommodation and staff quarters: Cable and Wireless Ltd. will share the expense.

Apart from this technical assistance to Cable and Wireless Ltd. the Government Telecommunications Department runs itself a marine radio service and an air radio service as well as having wide responsibilities for the maintenance of Government X-Ray equipment, licensing of radio transmitters and receivers and surveying all aeroplane and ship wirelesses.

The marine radio service operated by Government broadcast weather and typhoon warnings to shipping and acts as a channel for the passage of official and private messages between the Colony and ships at sea. It is also through this channel that incoming weather reports from ships are received. The service is maintained on both medium and short wave.

The functions of the air radio service are principally to control the regularity and safety of air services between the Colony and other airports. A limited service for private messages to passengers is provided.

Direction finding and navigational aids are also operated by this service.

Since the reoccupation of the Colony aeronautical radio services had been predominantly dependent upon assistance from the Royal Air Force, but in the middle of 1947, the general demobilisation programme of the R.A.F. necessitated the withdrawal at short notice of their personnel from the air radio organisation. They have now been replaced by civilian operators: a 12-hour air radio service is maintained.

A considerable amount of new equipment has been installed by the Telecommunications Department during the year under review. This equipment includes short-wave marine service transmitters, various transmitters for the air radio service, a number of medium frequency air beacons as well as several receivers for all services.

In addition, V.H.F. radio for the Police Force was greatly developed during the year and a system of communication now exists between Police launches and cars and a central control room in the city. This service has been of enormous benefit to the Police in the rapid detection of crime.

The department also operates a large network of cables for telegraph station remote control, broadcasting and telephones.

Extensive reconstruction of overhead routes in the New Territories was carried out during the year mainly to effect improvements to Police communications.

The greater part of the traffic handled by Cable and Wireless Ltd. is by means of wireless telegraphy but the company's cables to Singapore and Manila are also being operated satisfactorily.

The submarine cables to Shanghai which are owned jointly by Cable and Wireless Ltd. and the Great Northern Telegraph Company have not yet been restored.

A radio-telephone service between Canton, Hong Kong and Manila was opened towards the end of the year.

BROADCASTING

Broadcasting is in the hands of a Government sub-department under the control of the Postmaster General.

Transmissions are made from two stations, Z.B.W. (845 k/cs.) which is an English language Station and Z.E.K. (640 k/cs.) from which are made broadcasts in Chinese. Short-wave transmissions are also made from Z.B.W. on a frequency of 9.52 megacycles. The short-wave transmitter is that which was in use before the war, but the other transmitters have been installed since the reoccupation of the Colony.

The power of all transmitters is low, being about 2 kilowatts.

Wireless listening in Hong Kong has shown a substantial increase not only over last year but also by comparison with pre-war figures. The number of wireless licences issued has increased steadily at the rate of 1000 per month and in December 1947, 21,886 licences were in force. This is 50% more than before the war.

One of the greatest drawbacks experienced by the Colony was the difficulty of arranging "live" studio programmes as many people had gone on leave after internment and had not returned. But the year 1947 has seen the return of much local talent, and this, together with the receipt of many B.C. Transcription Service records, has done much to raise the quality of the broadcasting productions. It has

also been possible on this account to make a slight increase in the hours of broadcasting. Some difficulty was experienced during the year in maintaining adequate supplies of Chinese gramophone records on account of the disruption of production during the war, but there is reason to hope that the situation will improve gradually during the next few months. News bulletins are issued at lunch time on the short-wave transmitters in English and the Cantonese, Mandarin and Swatow dialects. In the evening the station relays the B.B.C. news in Cantonese and the English news and News Summary in the overseas service. Use has also been made of United Nations relays but this has been limited on account of the unsatisfactory reception.

Plans are being laid for the extensive use of the broadcasting station as a medium for education.

HONGKONG EMPLOYERS AND LABOUR

With reference to the article appearing in this Review dated 26th May 1948, under the heading "Hong Kong Labour Federation & Trade Unions" we learned from the Council of the Employers' Federation of Hongkong that a wrong impression may have been created.

Strikes affecting the Hongkong & Shanghai Hotels Ltd., and the Nanyang Textile Co. Ltd. have both been settled amicably and there were no further complaints from the workers of the Unions concerned.

The implications of victimisation attributed to the Federation are untrue. If one refers to the terms of settlement in these two strike cases recorded with the Labour Office, one will find proof that it was and is the desire of the Employers' Federation to create and maintain an atmosphere of good feeling between employer and employee which is so essential to the future welfare of the Colony.

TIN

Tin Price Increases

The following increased buying and selling prices for Malayan tin and Nigerian tin concentrates are effective as from June 1.

Buying price for Malayan tin metal increased from £504 to £554 per ton at the smelters at Penang or Singapore. Buying price for Nigerian tin concentrates increased from £485/10/- to £535/10/- per ton of tin in ore plus loading charges at Nigerian ports.

Selling price of Malayan tin raised from £505/10/- to £555/10/- per ton at the smelter.

The United Kingdom selling price of tin of minimum 99 percent up to under

99.75 percent tin content increased from £519 to £569 per ton f.o.b. United Kingdom port for delivery to U.K. consumers' works.

Other grades increased as follows:

Refined tin (99.75 percent minimum) from £522/10/- to £572/10/-.

Refined tin (99.9 percent minimum)

in 28 pound ingots, from £527 to £577.

Grain bar tin from £539 to £589.

Granulated tin from £544 to £594.

The price in the U.S. has been increased from US\$0.94 to US\$1.03 per lbs.

Siamese Tin Position

Tin production in Siam will probably reach in 1948 a total of 4,000 tons which is the highest annual production figure since the war. The main reason for the increased tin production is the rehabilitation of foreign owned dredges. Ten dredges began their first post-war operations during May in 33 of the 53 British-owned tin mines in the southern provinces.

The 4,000 tons expected output, added to an estimated stock of 7,000 tons carried over from last year, are expected to make this year's total tin stock aggregate only 5,000 tons below the highest pre-war tin production of 15,000 tons in 1941. Of the 7,000 ton stock in hand, 3,000 tons is metal and 4,000 ore. The metal was developed by smelting firms which operated during the Japanese occupation, but which went out of business at the end of the war, presumably because of the low output of ore.

The price of tins is to be raised to the level of Bolivian tins. Malayan interests demand such a parity rate and as Malayan tin prices were increased Siamese do follow.

Tin royalties will not be affected by an increase in price. Last year the Siamese Government netted US\$750,000 from Royalties.

Foreign Exchange from the export of tin is still under control, with the Government requiring that 50 percent are to be sold at the official rate to the Bank of Siam. British mining Company representatives were negotiating for the modification of this and other tin export regulations. The lifting of import duties on mining machinery is anticipated.

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Singapore and Malayan

Soap Trade

The amount of soap manufactured in the colony of Singapore during January 1948 was 28,753 hundred-weight, and in the Federation of Malaya, 11,979 hundredweight. The quantity of soap sold in both Singapore and the Federation of Malaya during January was 20,913 hundred-weight, and stock at the end of that month totaled 33,607.

In January 1948, Malayan imports of washing soap totaled 6,646 hundredweight, the United Kingdom supplying the entire quantity. Toilet-

soap imports amounted to 29,004 pounds, the United Kingdom and the United States supplying the major portion. Imports of other types of soaps amounted to 67,006 pounds, the United Kingdom again furnishing the full amount.

Malayan exports of washing soap during January 1948 amounted to 16,533 hundredweight; Burma, Hong Kong, Arabia, Cyprus, Sumatra, and Iraq being the chief destinations. Total toilet-soap exports in the same month were 412 pounds. Most of these shipments went to Sumatra. Exports of other types of soaps in January, totaling 357 pounds, went chiefly to neighbouring countries.

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Pepper Trade in Indonesia

Despite their low volume, the value of postwar pepper exports from the Netherlands Indies compares fairly well with the prewar level. Registered exports of black and white pepper during 1946 totaled 3,277 metric tons valued at 5,913,000 guilders, and during the first 10 months of 1947, 2,517 metric tons valued at 4,247,000 guilders, as compared with an average of 53,300 tons valued at 7,862,000 guilders. (Average mean rate of exchange during 1936 through 1940: 1.81 guilders--\$1 United States currency.)

In contrast with prewar years when Singapore and the United States were the leading buyers of Netherlands Indies pepper, the bulk of the postwar registered exports went to the Netherlands. Shipments to the United States during 1946 amounted to only 5 metric tons of white pepper valued at 13,033 guilders; and in the first 10 months of 1947, to 50 metric tons of black pepper valued at 139,887 guilders and 92 metric tons of white pepper valued at 160,681 guilders.

The available old-stock pepper was directed mostly to European countries, especially the Netherlands and Great Britain.

It is generally agreed that stocks of white pepper in the entire Netherlands Indies at the end of 1947 totaled between 3,500 and 4,000 metric tons. Information concerning black pepper stocks in Lampung is mere conjecture, estimates ranging from 1,000 to as much as 12,000 tons. Stocks of black pepper in Batavia in September 1947 were reliably estimated at 800 tons, but by the beginning of February 1948 this quantity was said to have been reduced to 500 tons. In Borneo, stocks (black and white) are less than 100 tons.

The bulk of the stocks mentioned above is moldy and dirty. A few hundred tons of good white pepper are said to have been discovered on Bangka, and the Government and the exporters are mostly exporting these parcels to the United States.

JAPANESE INDUSTRIAL REPORTS

Problems of Rehabilitation of Cotton Industry

The number of spindles authorized for restoration has been tentatively set at 4 million, of which 3,665,364 are owned by the 10 major spinning firms. The number of spindles installed or in working condition under the 13 leading cotton manufacturers (including Toyoda, Kowa and Asahikawa) as of October 31, 1947 was as follows:

Spindles installed	2,930,672
Spindles in working condition	2,826,131

Thus, in order to complete the permitted restoration of facilities, the re-installation of 1,069,328 spindles and the putting in working order of 1,173,868 spindles are called for.

Taking the number of spindles existing as of the date of the Surrender at 2,005,000, rehabilitation effected during the past two years and a half was roughly 925,000 spindles re-installed and 821,000 spindles in working condition restored. At this rate, the rehabilitation of the 1 million odd permissible spindles is bound to be beset with difficulties, particularly because restoration work has been started on the easily repairable facilities, and repairs will become increasingly difficult as time goes on, with the possibility that new equipment may have to be ordered.

The recent rate of restoration of spindles to working order is as follows:

For the year ending

August 1947	460,302
Sept. 1947	426,378
Oct. 1947	448,680

And the monthly averages for the above are 38,359, 35,532, and 37,390 spindles respectively. It will be seen that rehabilitation is progressing only at a monthly average rate of below 40,000 spindles; and since July 1947 the actual increases have been about 20,000. The projected restoration of one million spindles will however progress with much faster speed than the record at present suggests.

Principal Deterrents in the past

(1) The time-lag in the actual delivery of funds after applications for loans have been filed is a major deterrent, since increased costs during the intervening period usually makes it impossible to procure the desired materials at the originally estimated prices. This not only delays rehabilitation but necessitates frequent re-application for supplementary loans.

(2) The procurement of rehabilitation materials is not progressing smoothly.

(3) The output capacities of equipment and accessories makers are greatly diminished by the shortages of funds, materials, electricity, fuel, food and skilled labour. Therefore the Nippon Sen-i Kikai Kogyo Rengokai (Japan Federation of Spinning and Weaving Equipment Manufacturers) is

urging that "in order to attain the goal of 4 million spindles in operation, the highest priority be given to the production of spinning and weaving equipment, which is the basic industry upon which cotton manufacturing is dependent."

The cotton industry is faced with another important problem:—amortization of funds employed for rehabilitation. If rehabilitation is to be done there must be certainty about future returns on invested capital. In a society where free economy obtains, the deciding factor for the rate and limits of recovery of equipment would be none other than the price of the manufactured article. But at present, major commodity prices are restricted by official controls and are not determined in a free market. Yet, because the restoration to 4 million spindles (one third of the pre-war capacity) is founded on economic necessity, the controlled price should include amortization costs employed for rehabilitation. Otherwise the upkeep of working capital, let alone its accumulation, would be impossible.

Estimate of Amortization Costs

(1) At present, normal service durations of capital equipment are inapplicable; and in view of the deterioration in economic value in the near future of the equipment now being restored, redemption should be completed in a relatively short term.

(2) As rehabilitation progresses, the unit cost of restoration will increase (progressively more irreparable equipment must be restored, ultimately necessitating new equipment). Therefore restoration costs must be estimated accordingly.

(3) Annual amortization costs thus estimated will be divided by the annual production in bales to obtain the amortization expenses per bale; and furthermore, since production is influenced by electricity shortages and other factors, the actual turnover must be decided by including all the concrete details.

Granted that amortization costs are included in the officially determined manufacturing costs, the next problem is that of taxation. In the same way that materials allocations are useful only when backed by actual deliveries, the inclusion of amortization costs in the official production costs would be meaningless unless this is also duly recognized as a cost item by the tax administration. Likewise, interest accruing to rehabilitation loans must be interpreted by the same token.

In order to bring about a revival of the cotton industry, overall planning and implementation of measures conductive to proper vertical and horizontal co-ordination are necessary.

Hemp, Ramie, Jute Industry

In pre-war days the hemp and allied fibres industry was directly coupled to military needs. Tough vegetable fibres, more suited to the manufacture of sailcloth, heavy sheetings and ropes rather than for clothing, found wide use as war material; and so the industry was hardly affected by the drastic wartime readjustment of enterprises which suppressed all peacetime industries, of which textile are the mainstay. For while cotton, rayon, staple fibre and combeds output was curtailed by 74, 76, 62 and 60 per cent respectively, heavy fibres were subjected to a 21 per cent cut in woven articles only. Thus, facilities as of the end of June 1947 stood at 71,318 spindles for flax spinning, 48,078 spindles for ramie and 17,292 spindles for jute; aggregating 137,216 spindles. In addition to these, there were 27,260 spindles in storage.

Spinning Capacities for Heavy Vegetable Fibres

(Spindles in operation as of June 30, 1947)

FLAX

Teikoku Sen-i	37,886
Nippon Sen-i Kogyo	33,432
Total	71,318

RAMIE

Nippon Sen-i Kogyo	7,428
Toyo Sen-i	23,424
Tokyo Mashi Boseki	5,508
Kanegafuchi Boseki	9,270
Teikoku Sangyo	2,448
Total	48,078

JUTE

Koizumi Seima	9,992
Osaka Seima	3,676
Teikoku Sangyo	4,152
Total	17,820

The pre-war production capacities were 89,000 spindles for flax, 35,240 spindles for ramie, and 13,970 spindles for jute. So, only flax spinning has

been reduced to 80 per cent of the pre-war capacity, while spindles for both ramie and jute have increased by 36 and 24 per cent respectively.

The Japanese heavy vegetable fibres industry is divided into flax, ramie, jute and hemp cordage fabrication, as classified by raw materials; and of these, only flax processing is dependent on domestic sources of material. In pre-war days, only about 5 per cent of the necessary ramie and jute came from domestic sources, while the entire supply of Manila hemp was imported from abroad. Such being the case, even during the war, importation difficulties made it impossible to put available facilities into full operation. Production has been on a gradual decline since 1941.

Heavy Fibre Production

(In 1,000 pounds)

1937	195,180
1938	149,331
1939	171,351
1940	206,148
1941	139,124
1942	104,347
1943	103,738
1944	68,458
1945	40,632
1946	39,671

Processed Heavy Fibre Products by Varieties

(In 1,000 pounds)

	Flex	Ramie	Jute
June	938	310	322
December	777	254	166
1947:			
January	774	271	147
June	1,043	307	93
July	1,078	316	110

* * *

The Paper Industry

Hampered by the coal shortage, which is its main bottleneck, the paper industry of Japan is struggling to come out of its present stagnation. With the currently available facilities and equipment the annual productive capacity should be in excess of 2.4 billion lbs. Taking the operative capacity at 80 per cent of that figure, annual output of some 1.93 billion lbs. should be possible. However paper output is only 30 per cent of this amount.

Paper Production Capacity

(As of June, 1947 in short tons)

Classification	Capacity	Operative Capacity
Newsprint	236,858	189,386
Kraft paper	48,399	38,707
Ordinary paper	355,761	284,609
Total	641,002	512,801
Cardboard	297,252	237,802
Machine-made		
Japanese paper	267,396	213,917
Grand total	1,205,650	964,520

1947 Paper Output

(In 1,000 lbs.)

Month	Or- inary card board	Paper board	Paper	Total
April	26,180	4,059	39,469	
May	34,980	5,801	53,898	
June	38,593	7,912	59,816	
July	39,577	6,186	60,119	
August	40,848	6,157	59,385	
September	40,956	6,735	59,906	
October	40,372	6,418	58,562	
November	40,565	7,396	57,972	
December	36,385	7,054	54,282	
Total	338,457	57,718	503,408	

The output for the period April to December 1947 totalled 503,408,000 lbs. If the output for the months of January, February and March are estimated at the average for the nine preceding months, the total annual output will be 671,208,000 lbs.

Prewar output between 1935 and 1941 stood at 2.5 to 2.8 billion lbs. per year. Current output is about 25 per cent of prewar.

Wartime adjustment of enterprises, war damages and loss of overseas assets have caused a huge shrinkage in production capacity. But this only amounts to about 50 per cent of prewar. The reason for the slump in output must be sought for elsewhere.

Decline in Production Capacity

(In 1,000 lbs.)

	Post war (April (1941) 1946)	Pre- war (1941)	Ratio per cent)
Ordinary Paper	2,618	1,183	45%
Cardboard	1,228	584	48%
Japanese Paper	798	443	56%
Total	4,644	2,210	48%

The recent shortages of coal and electricity may be counted among the main reasons. As compared with the peak coal consumption of 1,240,000 tons in prewar, the paper industry in 1946 used only 267,000 tons, and the consumption for fiscal 1947, as estimated from actual deliveries, will probably come out at 350,000 tons to 360,000 tons.

In addition to decrease in bulk, the decline in quality is telling on the industry. Hitherto it was customary to calculate coal needs at one ton per ton of paper produced. Recently however 1.7 tons of coal is being required.

The shortage of electric power is also keenly felt, particularly because of the widespread electrification of boilers to cope with the lack of coal and other fuel.

Besides the foregoing obstructions, difficulties in the supply of pulpwood; industrial chemicals; felting; wire mesh; etc. are constituting bottlenecks. The allocation of pulpwood is set at 5 million koku whereas the actual requirement is 10 million; and because of transportation difficulties, actual deliveries fall below the allocated amount. In fiscal 1946 deliveries were only 66 per cent of allocations, and although improvement to some 88 per

Japanese Weights and Measures

KAN—3.75 kilograms
MOMME—3.75 grams
KIN (=160 momme)—0.6 kilogram
RI (36 cho=2,160 ken)—2.44030 miles
3.92727 kilometers
SHAKU—0.99419 foot
0.30303 meter
CHOBU (=10 tan)—2.45064 acres
KOKU (cereals)—5.11902 bushels (US)
(=10 to=100 sho=1,000 go)—4.96005 bushels (Brit.)
About 0.15 metric ton
KOKU (liquid)—47.35389 gallons (US)
(=10 to=100 sho=1,000 go)—59.6804 gallons (Brit.)
KOKU (timber)—About 1 cubic foot x 10
SHAKUJIME (timber)—About 1 cubic foot x 12
TABA (fagot, etc.)—About 3x6x6 feet
BALE (cotton)—500 lbs.
(cotton yarn)—400 lbs.
" (raw silk)—100 kin or 132.3 lbs.

cent is expected for fiscal 1947, the setback is still considerable.

Paper Production

Paper output for fiscal 1947 has thus been retarded by the above-mentioned factors, but in comparison with 1946 there has been some improvement, signifying gradual removal of some of the bottlenecks.

Comparison of Paper Outputs

1946 and 1947

(In 1,000 lbs.)

Classification	Year		Ratio (%)
	Fiscal 1946	Fiscal 1947	
Ordinary papers	299,794	338,457	113%
Cardboard	51,364	57,718	112%
Machine-made			
Japanese papers	26,797	102,505	382%
Hand-made			
Japanese papers	1,897	4,728	224%
Total	379,852	503,408	113%

The problem of increased future production hinges on the degree to which the above-mentioned difficulties can be removed. Coal allocations for the past two years have been set at 1 per cent

of the total coal output. Therefore if coal production for 1948 is boosted by 30 per cent, a corresponding increase in allocations to the paper industry can be expected. Electricity shortage can hardly become worse than at present. The industry is estimating the output for fiscal 1948 at 38 per cent above that of 1947.

Japan's minimum paper requirement is estimated at 1.2 billion lbs. per year. Taking the population at 80 million, the per capita annual requirement will thus be around 15 lbs. Against the prewar average annual per capita consumption of 37 lbs. (1935-37 average), the figure for 1946 was only 2.26 lbs. and an estimated 8.4 lbs. for 1947.

This is an acute paper famine, which becomes all the more conspicuous when comparison is made with the annual per capita consumption of some 240 lbs. in the United States.

The Japanese Government and SCAP will therefore give more consideration to suitable means of increasing paper production, especially because wartime stocks which made up for part of the deficiency during the past few years have been depleted, and production alone will have to be depended upon in the future.

from the Izu Peninsula is being utilized. So the source of soda ash remains the principal remaining difficulty. 10 kilograms of soda ash are needed for producing a single case of sheet glass. Hence there is the necessity of securing 1,300 metric tons a month, or approximately 4,000 metric tons for a single quarter period. Actually, however, only about 3,000 metric tons are now being made available to the nation's glass industry, and the deficit is being met by the use of glass scraps which are already scarce. For the fourth quarter period, 3,500 metric tons of soda ash are to be allocated. But since this is far from sufficient, it naturally follows that the industry must resort to the use of scrap glass.

* * * *

Hydro-electric Power and Development Schemes

During the period 1930 to 1934 the average national annual consumption of all varieties of power was equivalent to 54 million tons of coal. In 1942 it was 86 million tons, while in 1946 only 44 million tons were consumed. Other fuel are converted to coal containing 6,500 calories per kilogram. Only hydro-electric power output has increased slightly as compared with pre-war and wartime years. With the supply of other sources of power curtailed, overall consumption has fallen off. In the 1930 to 1934 period, the per capita consumption of energy averaged 0.82 ton; in 1942, 1.18 tons, while in 1946 it was only 0.58 ton.

Fuel and Power Consumption

(In 1,000 metric tons)

1930-34 1942 1946

	average		
Coal	33,976	56,639	17,330
Lignite	64	865	1,292
Petroleum	3,781	2,132	914
Firewood	3,692	4,651	2,233
Charcoal	2,071	2,815	1,564
Hydro-electricity	10,687	86,402	43,580

Total 54,271 86,402 43,913
(Other items are converted to coal containing 6,500 calories per kilogram).

Annual Per Capita Consumption

	Total Consumption (In 1,000 m. tons)	Popula- tion (In thou- sands)	Con- sump- tion (In m. tons)	Per Capita con- sump- tion (In m. tons)
1930-34 ...	54,271	66,301	0.82	
1935 ...	67,584	69,251	0.98	
1936 ...	73,535	70,258	1.05	
1937 ...	80,056	71,253	1.12	
1942 ...	86,402	73,114	1.18	
1946 ...	43,913	75,894	0.58	

Although these data indicate an increase in electric power consumption, when other power sources are taken into consideration there is no sign that the demand will slacken. With pre-war and wartime deforestation and

The Sheet Glass Industry

Although progress in sheet glass production is good, the present annual output of 4 million cases is only about a quarter of the pre-war level. Sheet Glass production figures for 1947 are as follows:

1947 sheet glass production

January	59,284	cases
February	47,666	"
March	67,064	"
April	53,976	"
May	101,063	"
June	116,058	"
July	115,187	"
August	109,134	"
September	109,474	"
October	131,490	"
November	132,000	"

Each month following May saw production in excess of the scheduled 100,000 cases. The notable increases are due to the fact that the Amagasaki Plant of the Mitsubishi Kasei K.K. started operation in May. With the recent addition of the oil-fueled Tsurumi Plant of the same Company, a marked increase in sheet glass production has resulted.

The monthly outputs of the four major sheet glass plants are as follows. Makiyama Plant 37,000 cases, Futashima Plant 34,000 " Amagasaki Plant 42,000 " Tsurumi Plant 20,000 "

Total 133,000 cases

All sheet glass plants are in full operation within the permissible limits, and production is at 1,560,000 cases per year. (130,000 cases a month). This is far from sufficient in the light of actual demand.

The sheet glass production as seen from the balance of supply and demand is not necessarily encouraging. Considering the present circumstances under which the above-mentioned four plants are being operated, the sheet glass industry is better off than other industries. Coal supply is sufficient, and the Tsurumi Plant is being permitted to use heavy oil.

The only problem now confronting the glass industry is soda ash. Before the war the industry was dependent on imported silica, but at present silica

post-war rebuilding causing a dearth of lumber, there is little likelihood that the supply of firewood or charcoal will be eased. Therefore, as a method for countering the present shortage of domestic fuel, immediate action will have to be taken for planning and initiating hydro-electric generation projects.

Development of New Power Resources

The total available water power in Japan as of December 31, 1946 amounted to 16.2 million kilowatts, of which undeveloped resources were estimated at a maximum of 9.91 million kilowatts. The normal average output placed at 2.79 million kilowatts, with an undeveloped potential of 3.09 million kilowatts.

Available Water Power in Japan

(As of December 31, 1946)

	Maximum Loca- tions Resources	Normal output (million KW)	output (million KW)
Developed Resources	1,447	6.20	2.787
Undeveloped Resources	1,776	9.911	3.087
Total	3,223	16.201	5.875

These estimates do not include water power sources of less than 100 H.P. (74.6 kilowatts) capacity, and are calculated on the basis of the high head channelized flow systems which have been prevalent in Japan. Therefore, if reservoirs were to be constructed on the upper reaches of streams and low or medium head dam generation were adopted, a far greater amount of electric power could be obtained.

The total annual rainfall over Japan is estimated at about 500 billion kilowatt-hours of power. If proper adjustment is to be effected between demand and peak generating capacity by smoothing out seasonal fluctuations through nation-wide construction of reservoirs and special generating plants for the winter low-water period, etc., generating equipment aggregating from 70 million to 80 million kilowatts in capacity will become necessary.

For the adoption of reservoir-and-dam generation, by which the estimated 16 million kilowatt maximum capacity can be far surpassed, the locations given below are considered the most promising.

In the Kanto area, hydro-electric generation of some million kilowatts is possible by the full utilization of Lake Chuzenji alone. This can be realized by the estimated 5 million kilometer head of water which will result from the natural or artificial drops to the Tone, Tadami and Kinu Rivers from reservoirs constructed at an altitude of 1,400 meters at Osehara and Senjogahara in addition to Lake Chuzenji itself.

With a further utilization of Lake Biwa, which will include schemes for lowering the lake surface and controlling the Yodo River, power plants capable of producing 50,000 kilowatts during the high-water period and a peak output of 350,000 kilowatts in the low-water season can be constructed.

Possible Release of Japanese Export Stockpile For Domestic Consumption

Effective utilization of what materials are available is the need of the moment. Yet, sizeable quantities of commodities, including hoarded goods and stocks of export merchandise, are remaining warehoused and idle. A portion of these stocks will have to be released for domestic consumption in order to tide over the present shortage of consumer goods in Japan.

Indications are that stocks held by various foreign trade corporations aggregate some 7,000 million yen.

There are two major reasons for the accumulation of stocks: foreign trade is as yet a government-operated enterprise, and transactions are being obstructed by the non-existence of foreign exchange rates; shipments to the South Sea areas remain small because of the troublesome procedure involved in the settlement of payments.

If more freedom could be permitted trade, and if the method of payment for the Sterling area could be simplified, there would be considerable hope for Japanese export trade.

To date, export production of Japan has been carried out on the basis of purely domestic judgment, and the result has been that a considerable amount of products has been disqualified for overseas markets because of failure to meet standards and quality requirements. Such goods may therefore be released for domestic use.

Today, food tops the list of the people's needs, followed by textile goods, of which a large stockpile exists. But the release of the latter, in excess of the authorized 20 per cent of the finished output, would be difficult, because textile manufactures are linked with raw materials imports from abroad. It should be possible to divert such textiles for domestic use not likely to be exported in the immediate future, provided they can be substituted by other export items. There are 200,000 dozen pieces of knitted goods in stock.

The Minerals and Industrial Products Foreign Trade Corporation is holding ample stocks. Some 200 million yen worth of items, disqualified for export, are stocked as follows:

Industry and Mining Export Goods in Stock (In Y1,000)	
Machinery (bicycles, sewing-machines, electrical appliances, etc.)	59,000
Sundry Goods (toys, clothing accessories umbrellas, footwear, etc.)	23,919
Rubber Manufacturers (tires, inner tubes, rubber gloves, rubber-soled shoes)	68,992
Leather Goods (280 doz. wallets, etc.)	315
Celluloid Toys	11,190
Glassware (glasses, lamps, etc.)	3,750
Chinaware	30,000
Chemical Products	22,212
Art & Handcraft Products (lacquerware, cloisonne boxes, vases, etc.)	19,799
Total	239,780

The release of such huge stocks of export goods for domestic use would have no small effect upon the nation's economy. It would relieve the foreign trade corporation of its economic burden, not only by freeing it from the current money shortage, but also by delivering it from the obligations of heavy interest payments and warehousing costs. By increasing the supply of scarce commodities, prices and the cost of living will be stabilized. By the sale of high grade and luxury items, surplus purchasing power will be absorbed.

There have been reports in Tokyo that, for absorbing excessive purchasing power, the Government is planning to establish Soviet-style State stores dealing in hoarded goods, restricted or controlled commodities, sugar, high grade cosmetics, high grade tobacco products, etc. Inasmuch as revenue cannot be raised much more by the existing methods of taxation, this new way might be adopted. A portion of the export commodity stocks may be handed over by consignment to department stores and reliable retailers. There is no objection to the rationing of some of these goods at official prices, but 100 per cent efficacy of the measure would result if the greater bulk of the commodities were to be sold, through the State-operated stores, at intermediate prices, or prices which are lower than the black market quotations but higher than the official ceilings.

There will be many restrictions to domestic release of commodities earmarked for export. SCAP approval will have to be obtained, and inasmuch as export items have received quotas of material supplies for their manufacture, the diversion to the domestic market of commodities intended for export will entail revision of the plans for allocations of materials.

Anticipation of Higher Prices and Wages

The government-planned revised price structure built upon the 1,800 yen wage base is proving inadequate to support wage-earners and their dependents. The price structure has failed to provide for rationed consumers' commodities, particularly staple food-stuffs.

A simplified exposition of the price situation as brought about by the revised price structure of October, 1947, is given by the appended table. The prices as compared with those of pre-war or pre-control days are showing extreme discrepancies. The first column of the table gives the price indices for various commodities with the average price for 1933 taken as the base of 100. Fuel at 114 times tops the list, followed by building materials at 80 times; other edibles and non-essentials at 67 times; industrial chemicals at 64 times; and, edible farm produce and metals at 61 times.

Although 1933 cannot be regarded as a year of ideally proportioned price levels, fair stability was obtained at that period, following upon the panic of 1929. The wide divergencies in the prices of today can therefore be taken as indicative of the changes that developed since that time.

To examine these modifications in the ranking of prices one should turn to the second column of the table for the commodity prices of 1933, with edible farm produce taken as the index figure of 100. Fuel at 184.8 was the costliest group, followed by building materials at 129.5; other foodstuffs and non-essentials at 109.5; and industrial chemicals at 103.6.

Wholesale Price Indices (Oct. 1947)

	Edible May 1933	farm 1947	prices as 100	produce 1947	prices =100
Edible farm produce	6,194.6	100.0	301.8		
Other foodstuffs and non-essentials	6,781.0	109.5	137.3		
Raw textile materials	4,506.0	72.7	209.5		
Textiles	2,179.0	35.2	100.0		
Building materials	8,023.5	129.5	241.0		
Metals	6,141.1	99.1	232.7		
Fuel	11,448.2	184.9	287.5		
Fertilizers	4,420.1	71.4	200.1		
Industrial chemicals	6,416.1	103.6	293.4		
Others	7,686.3	124.1	308.2		
Overall averages	5,798.5	93.6	203.6		

The sharpest rise took place with edible farm produce at 301.8, followed by industrial chemicals at 293.4; fuel at 287.5; building materials at 241.0; and metals at 232.7. Textiles and fertilizer are low. Should these be raised, readjustment to a still higher level of prices for edible farm produce would become inevitable.

In the post-war price policies pursued by the Japanese government, rice and coal prices were the bases for the initial attempt while wages became the fulcrum for the recent revision. In both cases, insofar as control was the main instrument through which the attempts to maintain artificial price levels were made, there was no fundamental departure from the policy adopted throughout the war days. Therefore, if the same degree of achievement is desired, the government must either possess strong power of enforcement or adopt a more reasonable, natural and fluid system of control.

It being impossible under the present circumstances to rely solely upon powerful enforcement, and with conditions differing greatly from war-time when the creation of a huge demand, such as for munitions, was possible on a monopolistic scale, a considerable increase in the supply of commodities will be necessary in order to establish an effective and lasting system of prices. If this increase in supply is to be obtained by production and importation, at least a year's period of grace must be granted. During this interim prices will continue upwards, because it appears unlikely that any policy for prices can fundamentally be adopted.

FAR EASTERN ECONOMIC REVIEW

HONGKONG INDUSTRIES

MATCH INDUSTRY IN HONGKONG & MACAO

Following about a year's hard struggle and depressing business since the beginning of 1947 on account of American competition, the match industry in Hongkong and Macao has recovered considerably and returned to most of its lost markets in the Far East.

There are now three match factories in operation in Macao and another three in Hongkong, the former ones being in existence longer than the local factories and being also better off technically since they continued operation throughout the Pacific War as the Portuguese Colony was not occupied.

Although they are established in two different colonies these match factories are closely linked and associated in business policy. The six factories are financed and operated by Chinese interests. With the exception of one, the other five match factories are members of the Hongkong & Macao Match Manufacturers Association.

In Macao are:—The Tai Kwong Match Co., established in 1914; the Cheong Ming Match Co., established in 1928; and the Tung Hing Match Co., established in 1912; in Hongkong are:—The Great China Match Co., established in 1940; and the Hongkong Match Factory, established in 1939. The one factory, which is not yet associated with the Association is the newly established Tai Tung Match Factory in Un Long (New Territories), which is a very small concern when compared with the five others. This factory employs 28 workers and is capable of producing some 100 cases of matches monthly.

Production & Exports

The five Association factories are presently manufacturing 6,500 cases (each case contains 7,200 boxes) of matches and together doing some \$1,300,000 business per month, 90 per cent of which is for export and the remaining 10 percent for local consumption (Hongkong and Macao).

Their total investment in factory buildings, land, machinery and raw material stocks is estimated at \$4 million.

According to the Labour Office records, there are four match factories in Hongkong. Technically speaking, it is correct because the Hongkong Match Factory has an extension workshop next to its main factory and was so doubly registered.

The Hongkong Match Factory, which is at present employing 340 workers and occupying a factory site of 13,000 sq. ft. in To Ko Wan, has bought another site of a similar size opposite its present workshop for expansion. As export marketing conditions are still not assured the management has postponed the expansion scheme but is prepared to erect a modern match factory later at an estimated expenditure of more than \$1 million. When the new factory is built and put into operation, the Hongkong Match Fac-

tory expects to increase its present output to 2,500 cases monthly.

The Great China Match Co. has its factory on Ping Chau Island, covering an area of 530,000 sq. ft. and producing 1,500 cases of matches monthly. It employs about 500 workers and is at present the biggest and most efficiently operated match factory in Hongkong and Macao. The factory, owned and operated by match industrialists from Shanghai, was established here in 1940 after the outbreak of the Sino-Japanese hostilities for the purpose of producing matches in Hongkong for consumption in China. After liberation, China imposed multiple import restrictions which caused the factory to lose its China market and to concentrate its export business on Far Eastern countries. As its fixed business policy remains sales to China, the factory has not mapped out any plans for expanding production in Hongkong, but has a scheme for setting up a modern match factory in Canton if the Chinese Government would give permission to the factory to import all required raw materials into Canton.

Business Conditions

All the match factories in Hongkong and Macao did prosperous business in China before the outbreak of war, but after 1942 Hongkong factories had to cease operation. Macao factories however, continued to operate at capacity and made high profits.

After the termination of the Pacific War, Hongkong factories almost immediately resumed operation and did flourishing business in the local and Far Eastern markets for some time until the beginning of 1947, when large quantities of American war surplus matches were dumped on these markets coming mostly from Manila.

These American military surplus stocks had a most disastrous effect on Macao's and Hongkong's match industry. They were sold 50 percent cheaper than local products. However, the U.S. Army surplus flooded the markets only for about one year and then were exhausted.

Fresh American products other than war surplus were brought into Far Eastern countries in small quantities, but they proved to be of no competition to local products since they are expensive and less suitable for consumption in damp climates like Hongkong. According to local match manufacturers, American matches cannot offer much competition to locally produced matches either in Hongkong or in Far Eastern countries. There is, however, much successful selling of Swedish matches in Far Eastern countries and the Japanese competition with certainly increase soon on these markets.

Under the joint efforts of the Hongkong & Macao Match Manufacturers Association, the factories have jointly reduced their sales prices and improved their products to be more in line with Swedish matches.

Overseas Markets; Import Needs

The export markets for Hongkong and Macao matches are:—Malaya, Netherlands Indies, Siam, Indo-China, Burma, India, Philippines, North Borneo, East and West Africa. The present production capacity of local and Macao factories has slightly surpassed its pre-war capacity.

Local match factories import necessary raw materials from:—lumber from U.S.A. and Canada; chemicals from U.K., Belgium, Holland; paper from Scandinavian countries; zinc sheets from Belgium.

Government has been helping the match industry with foreign exchange allocations for importing raw materials from hard currency countries, and supplying coal regularly every month at controlled prices as well as procuring machinery from Japan.

However, on account of the Belgian franc deficit, Government has not always been able to grant francs for buying zinc sheets from Belgium (required for packing products for export). Factories cannot substitute another kind of metal sheet for packing if they are to maintain the same standard as Swedish matches.

Sales Prices

The current sales price of locally and Macao made matches is about the same as in 1947, but about twice the price which prevailed at the outbreak of the Sino-Japanese war in 1937. The current low price was caused by competition with Swedish products, higher production by local and Macao factories to meet demands on Far Eastern markets, and by a drop in prices of imported raw materials.

On the other hand, the current production cost is still high when compared with pre-1941. Raw materials are four times and labour costs five times the prewar figures. Local and Macao match factories have to be satisfied with small profits.

Local matches are classified into three grades: Special Grade (Impregnated) being sold at \$230 per case; First Grade sold at \$220 per case; and Second Grade sold at \$200 per case.

* * *

TORCH LIGHT INDUSTRY

The Colony's flashlight manufacturing industry, which is one of the leading industries here, is at present not doing very well after about two years' prosperous trading. Lack of demand in Far Eastern markets and import restrictions imposed by India has adversely affected local torch making.

There are 18 torch manufacturing factories in Hongkong, which give employment to 2,597 workers (659 female and 1,938 male). The factories are capable to produce 7,700 dozen torches daily. Individual capacity ranges from 100 dozen to 1,000 dozen torches daily.

With the exception of a few well capitalised and operated factories, the majority of workshops are today operating at one-third of their capacity owing to less demand for Hongkong made torches abroad.

The local torch industry is experiencing difficulties concerning Imperial Preferences. The United Kingdom was one of the biggest pre-war markets, and other Empire countries are now among the leading buyers.

95 percent of locally made torches are for export mainly to South Africa, Malaya, the Netherlands East Indies, Holland and smaller lots to India. The remaining five percent are for local consumption and for Macao.

The light range of local products varies between 100 feet and 1,500 feet, the most popular ones being those of 300 ft., 400 ft. and 700 ft. Current wholesale prices (FOB HK) from \$12 per doz. for 100-ft range torches to \$65 per doz. for 1,500-ft range flight-lights. The 300-ft range torches are quoted at \$28 per doz., the 400-ft ones at \$36 per doz. and the 700-ft ones at \$46 per doz.

Current wholesale prices are about five times pre-war though production costs are much higher—materials are about four to five times and labour about 10 times the 1941 level. Local torch factories cut down their sales prices on account of keen competition among themselves and as a conse-

quence of cheap imports of American made torches of plastic material.

There are two kinds of local produced torches, one being made of tin plate waste and the other of brass. Raw materials, brass and chemicals, are imported from Canada and the United States. Government has allocated to factories much of the necessary US and Canadian dollars. Some of the brass used by torch factories is made locally from empty brass artillery shells.

The biggest local factory is employing 1,150 workers and producing about 1,000 doz. torches daily. Of its total daily output, 30 percent are made of its own brand for export and the other 70 percent are manufactured for an American Company, which uses the locally produced torches for distribution in Far Eastern countries. By adopting this practice, the American company saves transportation expenses for torches made in the United States. This fact proves that local torch factories are capable to turn out torches of best quality.